

*In the opinion of Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Authority, under existing statutes and court decisions, and assuming continuing compliance with certain tax covenants described herein (i) interest on the 2003 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2003 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest however, is includable in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. See TAX EXEMPTION herein for a description of certain other provisions of law which may affect the Federal tax treatment of interest on the 2003 Bonds. In the opinion of Hawkins, Delafield & Wood, under the existing laws of the State of Tennessee, the 2003 Bonds and the interest thereon are free from taxation by the State of Tennessee or any local governmental unit or other political corporations or subdivisions thereof, except for inheritance, transfer and estate taxes, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to State law.*

**\$8,295,000**  
**TENNESSEE LOCAL DEVELOPMENT AUTHORITY**  
**State Loan Programs Revenue Bonds**  
**2003 Refunding Series A**

Dated: Date of Delivery

Due: March 1 As Shown Below

The State Loan Programs Revenue Bonds, 2003 Refunding Series A (the "2003 Bonds") will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the 2003 Bonds is payable on September 1, 2003 and semi-annually on each March 1 and September 1 thereafter as more fully described herein. Certain of the 2003 Bonds are subject to redemption prior to maturity as more fully described herein.

The 2003 Bonds are being issued by the Tennessee Local Development Authority (the "Authority") pursuant to the Tennessee Local Development Authority Act, Title 4, Chapter 31, Tennessee Code Annotated, as amended, for the purpose of refunding portions of the Authority's outstanding State Loan Programs Revenue Bonds, 1986 Refunding Series A, and State Loan Program Revenue Bonds, 1993 Refunding Series A, heretofore issued for the purpose of refinancing loans to Local Government Units to pay the cost of certain sewage treatment works, waterworks and energy recovery and resource recovery facilities.

The 2003 Bonds will be payable from Revenues of the Authority and other moneys and securities pledged under the Resolution. Revenues include amounts derived from payments required to be made by Local Government Units under Loan Program Agreements and derived from certain State Shared Taxes but only when such taxes have been withheld pursuant to law and have become the property of the Authority, on a parity with Bonds heretofore and hereafter issued and interest on Notes of the Authority heretofore and hereafter issued. As more fully described herein, Revenues also include, and principal of and interest on the 2003 Bonds also may be payable from, amounts withdrawn by the Authority from the Local Development Authority Statutory Reserve Fund.

**The 2003 Bonds will constitute limited special obligations of the Authority. The Authority has no taxing power. The State of Tennessee is not liable on the Bonds and Notes of the Authority, including the 2003 Bonds, and such Bonds and Notes are not a debt of the State of Tennessee.**

**MATURITIES, AMOUNTS, INTEREST RATES, YIELDS  
AND CUSIP NUMBERS**

<u>Due March 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number*</u>
2004	\$ 960,000	3.00%	1.30%	880550HA9
2005	1,015,000	3.00	1.62	880550HB7
2006	810,000	1.95	2.01	880550HC5
2007	825,000	2.40	2.45	880550HD3
2008	845,000	4.00	2.85	880550HE1
2009	875,000	3.15	3.26	880550HF8
2010	905,000	3.45	3.56	880550HG6
2011	650,000	3.75	3.85	880550HH4
2012	565,000	4.00	3.98	880550HJ0
2013	345,000	4.00	4.11	880550HK7
2014	350,000	4.00	4.24	880550HL5
2015	150,000	4.00	4.36	880550HM3

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.**

The 2003 Bonds are offered when, as and if issued by the Authority, subject to the receipt of an opinion as to the validity of the 2003 Bonds by Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by its counsel, the Attorney General and Reporter of the State of Tennessee, Nashville, Tennessee, and for the Underwriter by its counsel, Boulton, Cummings, Conners & Berry, PLC, Nashville, Tennessee. The Authority expects that delivery of the 2003 Bonds will be made to DTC in New York, New York, on or about January 30, 2003.

**M♦R♦BEAL & COMPANY**

January 22, 2003

\* These CUSIP numbers have been assigned to this issue by an organization not affiliated with the Authority and are included solely for the convenience of the Bondholders. The Authority shall not be responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the 2003 Bonds or as indicated herein.

This Official Statement does not constitute an offering of any security other than the 2003 Bonds offered hereby. No dealer, broker or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, the 2003 Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Certain information set forth herein has been provided by the Authority. Certain other information set forth herein has been obtained by the Authority from sources believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement, nor any sale made hereunder implies that the information contained herein is correct as of any time subsequent to the date hereof.

**In conjunction with this offering of the 2003 Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market prices of such bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION.....	1	Description of State Shared Taxes.....	14
DESCRIPTION OF THE 2003 BONDS.....	2	Gasoline Tax and Motor Vehicle Fuel Use Taxes.....	15
Book-Entry Only.....	2	Sales and Use Tax.....	15
Optional Redemption.....	2	Federal Payments in Lieu of Taxes.....	15
Notice of Redemption.....	2	Tax on Income from Stocks and Bonds.....	16
Ownership of Bonds.....	2	Mixed Drink Tax.....	16
PLAN OF REFUNDING AND APPLICATION OF THE 2003		Alcoholic Beverage Tax.....	16
BOND PROCEEDS.....	3	Beer Tax.....	16
THE AUTHORITY.....	4	TAX MATTERS.....	16
THE STATE LOAN PROGRAM.....	4	Opinions of Bond Counsel.....	16
SECURITY FOR THE 2003 BONDS.....	5	Certain Ongoing Federal Tax Requirements and Covenants.....	17
In General.....	5	Certain Collateral Federal Tax Consequences.....	17
State Shared Taxes.....	5	Original Issue Discount.....	17
Bond Reserve Fund.....	6	Bond Premium.....	18
Limited Payments from Statutory Fund.....	6	Possible Government Action.....	18
Trustee.....	7	General.....	18
Limited Special Obligations.....	7	VERIFICATION.....	18
Acquisition of Bonds and Notes by the State.....	7	LITIGATION.....	18
THE PROJECTS.....	8	RATINGS.....	19
CERTAIN REQUIREMENTS OF THE ACT AND THE		FINANCIAL ADVISOR.....	19
RESOLUTION.....	8	LEGAL OPINIONS.....	19
Certain Conditions for Issuance of Bonds.....	8	CONTINUING DISCLOSURE.....	19
Certain Conditions for Issuance of Notes.....	8	UNDERWRITING.....	20
Certain Conditions for Entering into Loan Program		MISCELLANEOUS.....	20
Agreements.....	9	APPENDIX A-SUMMARY OF CERTAIN PROVISIONS OF	
REVIEW AND APPROVAL PROCESS FOR THE		THE RESOLUTION.....	A-1
FINANCING OF PROJECTS BY THE AUTHORITY.....	10	APPENDIX B-THE DEPOSITORY TRUST COMPANY.....	B-1
THE LOAN PROGRAM AGREEMENTS.....	11	APPENDIX C-SUMMARY OF CERTAIN PROVISIONS OF	
Monthly Payments by Local Government Units.....	11	THE CONTINUING DISCLOSURE UNDERTAKING.....	C-1
Pledges and Source of Payments by Local Government		APPENDIX D-FINANCIAL STATEMENTS OF THE	
Units.....	12	AUTHORITY.....	D-1
Withheld State Shared Taxes.....	12	APPENDIX E-SCHEDULES RELATING TO 2003 BOND	
Additional Program Loans; Prepayments.....	13	FUNDED PROJECTS.....	E-1
Certain Covenants of the Authority.....	13	APPENDIX F-FORM OF PROPOSED OPINION OF BOND	
STATE SHARED TAXES.....	14	COUNSEL.....	F-1

# **TENNESSEE LOCAL DEVELOPMENT AUTHORITY**

## **MEMBERS**

PHIL BREDESEN, GOVERNOR, *CHAIRMAN*  
RILEY C. DARNELL, SECRETARY OF STATE, *VICE CHAIRMAN*  
JOHN G. MORGAN, COMPTROLLER OF THE TREASURY, *SECRETARY*  
STEVE ADAMS, STATE TREASURER  
DAVE GOETZ, COMMISSIONER OF FINANCE AND ADMINISTRATION  
JAMES H. WESTBROOK, JR., NOMINATED BY THE TENNESSEE  
COUNTY SERVICES ASSOCIATION  
DON THORNTON, NOMINATED BY THE TENNESSEE MUNICIPAL LEAGUE

## **STAFF**

MARY-MARGARET COLLIER, DIRECTOR OF THE DIVISION OF BOND FINANCE,  
*ASSISTANT SECRETARY*  
ANN V. BUTTERWORTH, ASSISTANT TO THE COMPTROLLER FOR  
PUBLIC FINANCE, *ASSISTANT SECRETARY*  
JANET L. MANOOKIAN, BOND FINANCE OPERATIONS OFFICER

## **ISSUER'S COUNSEL**

ATTORNEY GENERAL AND REPORTER OF THE STATE OF TENNESSEE  
*NASHVILLE, TENNESSEE*

## **BOND COUNSEL**

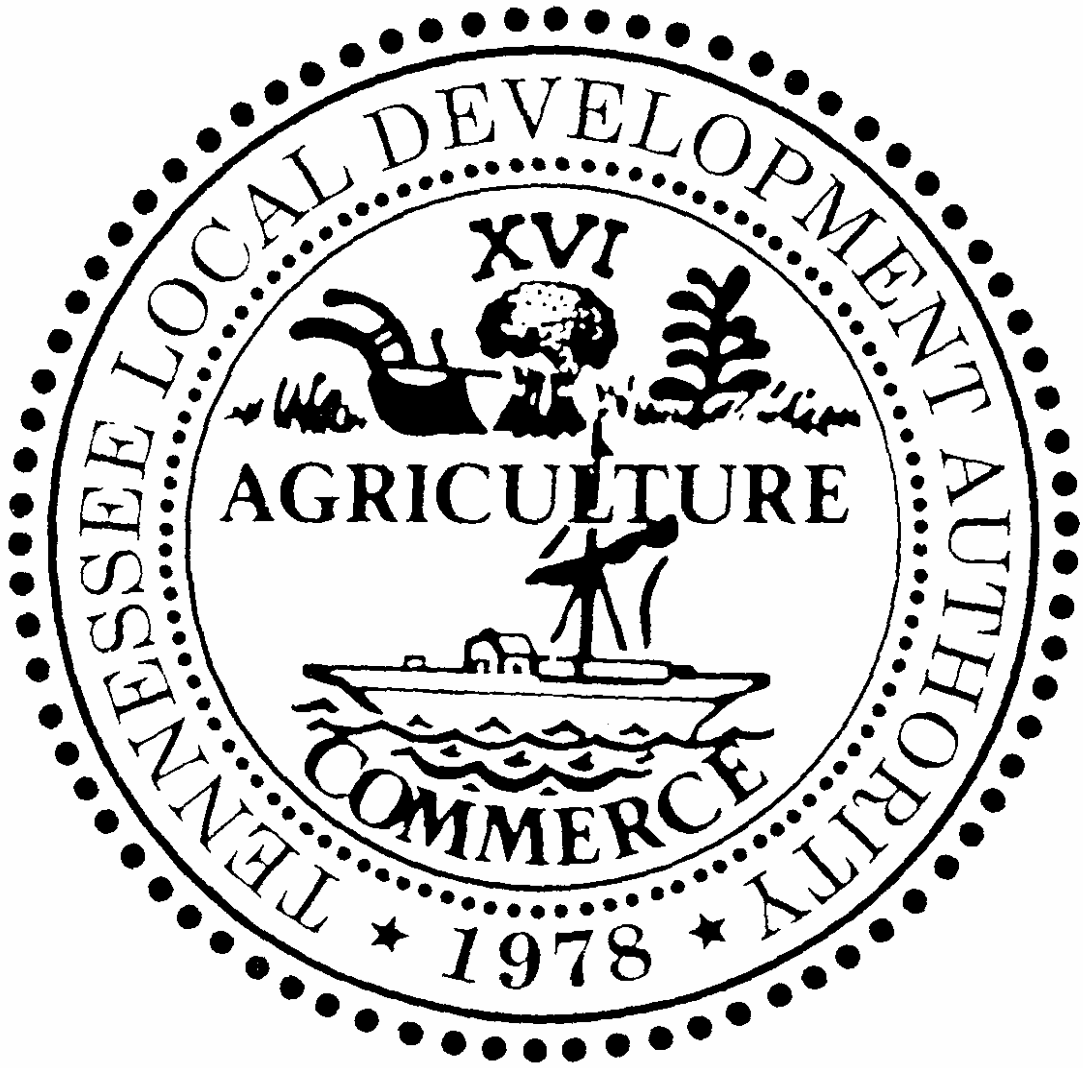
HAWKINS, DELAFIELD & WOOD, *NEW YORK, NEW YORK*

## **UNDERWRITER'S COUNSEL**

BOULT, CUMMINGS, CONNERS & BERRY, PLC, *NASHVILLE, TENNESSEE*

## **FINANCIAL ADVISOR**

PUBLIC FINANCIAL MANAGEMENT, INC., *MEMPHIS, TENNESSEE*



**OFFICIAL STATEMENT**  
**Relating to**  
**\$8,295,000**  
**TENNESSEE LOCAL DEVELOPMENT AUTHORITY**  
**State Loan Programs Revenue Bonds**  
**2003 Refunding Series A**

**INTRODUCTION**

The purpose of this Official Statement (including the cover page and the Appendices attached hereto) is to set forth information concerning the Tennessee Local Development Authority (the "Authority") and the Authority's \$8,295,000 State Loan Programs Revenue Bonds, 2003 Refunding Series A (the "2003 Bonds"). (Such bonds and all other parity bonds issued under the Resolution hereinafter mentioned are hereinafter called the "Bonds".) The 2003 Bonds have been authorized by a resolution adopted by the Authority on December 19, 2002 (the "2003 Supplemental Resolution") pursuant to the provisions of the Tennessee Local Development Authority State Loan Programs General Bond Resolution adopted by the Authority on August 3, 1982, as amended and supplemented and restated and readopted on March 14, 1985, and as amended on May 17, 1989 (as supplemented by the 2003 Supplemental Resolution and as further amended and supplemented, the "Resolution").

The 2003 Bonds will be issued pursuant to the Tennessee Local Development Authority Act, Title 4, Chapter 31, Tennessee Code Annotated, as amended (the "Act"). The Act empowers the Authority, among other things, to issue its bonds and notes for the purpose of providing moneys to make loans or grants subject to repayment (the "Program Loans") to certain cities, towns, counties, metropolitan governments and special districts (the "Local Government Units") in the State of Tennessee (the "State") as part of certain statutory programs undertaken by the State to provide assistance to Local Government Units in connection with the construction of sewage treatment works and waterworks (the "State Loan Programs"). Pursuant to the Act and the Resolution, proceeds of the Bonds, including the 2003 Bonds, and notes issued under the Resolution (the "Notes") are to be used only to provide such assistance to Local Government Units respecting sewage treatment works and waterworks construction. (See "PLAN OF REFUNDING AND APPLICATION OF THE 2003 BOND PROCEEDS" and "THE STATE LOAN PROGRAMS.") Each of the Program Loans financed pursuant to the Resolution is required to be repaid pursuant to a loan program agreement (a "Loan Program Agreement"), which is entered into by and among the Tennessee Department of Environment and Conservation (the "Department"), the State Funding Board (the "Funding Board") with respect to those Loan Program Agreements entered into prior to May 3, 1989, the Authority and the Local Government Unit. Under each Loan Program Agreement, the Local Government Unit receiving the Program Loan agrees, among other things, to make payments sufficient to pay debt service on that amount of bonds or notes of the Authority issued or to be issued to finance or refinance the cost of making the Program Loan (the amount of Bonds issued or to be issued to provide permanent financing for each Program Loan being referred to in this Official Statement as the "Allocable Amount of Bonds"). The 2003 Bonds are the subject of Loan Program Agreements, as described above, and principal of and interest on the 2003 Bonds are also payable as described below. (See "SECURITY FOR THE 2003 BONDS", "THE LOAN PROGRAM AGREEMENTS" and "STATE SHARED TAXES.")

An aggregate principal amount of \$4,321,000 State Loan Programs Revenue Bonds, 1986 Refunding Series A (the "1986 Series A Bonds"), \$17,805,000 State Loan Programs Revenue Bonds, 1993 Refunding Series A (the "1993 Series A Bonds") and \$30,680,000 State Loan Programs Revenue Bonds, 1997 Series A (the "1997 Series A Bonds") are currently outstanding under the Resolution. In addition, an aggregate principal amount of \$51,000,000 of State Loan Programs Revenue Bond Anticipation Notes, 2002 Series A (the "2002 Notes") is currently outstanding under the Resolution. The 2003 Bonds are being issued to provide sufficient moneys, together with other funds available to the Authority, to refund a portion of the outstanding 1986 Refunding Series A Bonds (the "1986 Refunded Bonds") and a portion of the outstanding 1993 Refunding Series A Bonds (the "1993 Refunded Bonds" and, collectively with the 1986 Refunded Bonds, the "Refunded Bonds"), as discussed under "PLAN OF REFUNDING AND APPLICATION OF THE

2003 BOND PROCEEDS", whereupon the Refunded Bonds will no longer be deemed to be outstanding under the Resolution.

## **DESCRIPTION OF THE 2003 BONDS**

The 2003 Bonds will be dated the date of delivery, will mature on the dates and in the principal amounts set forth on the cover page of this Official Statement, will bear interest from their date at the respective rates per annum set forth on the cover page of this Official Statement, payable on September 1, 2003 and semi-annually on March 1 and September 1 thereafter, and will be issuable as fully registered bonds in the denominations of \$5,000 or any integral multiple thereof.

### **Book-Entry Only**

Upon initial issuance, the 2003 Bonds will be available only in book-entry form. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2003 Bonds. The 2003 Bonds will be issued as one fully registered bond for each maturity, registered in the name of Cede & Co. (DTC's partnership nominee) and will be deposited with DTC. See Appendix B for a description of DTC and its book-entry only system that will apply to the 2003 Bonds.

The Authority will give any notice required to be given to the owners of 2003 Bonds only to DTC. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS FOR THE DIRECT DTC PARTICIPANT THROUGH WHOSE DTC ACCOUNT ITS BENEFICIAL OWNERSHIP INTEREST IS RECORDED TO RECEIVE NOTICES THAT MAY BE CONVEYED TO DIRECT DTC PARTICIPANTS AND INDIRECT DTC PARTICIPANTS.

### **Optional Redemption**

The 2003 Bonds maturing on and after March 1, 2011 are subject to redemption prior to their stated maturities at any time on and after March 1, 2010 at the option of the Authority, from any moneys that are or may be made available to the Authority for such purpose, as a whole or in part from time to time in any order of maturity determined by the Authority and by lot within a maturity, at the redemption prices (expressed as percentages of the principal amount to be redeemed) for the respective periods set forth below, together with accrued interest on such principal amount to the date of redemption.

<u>Period During Which Redeemed (both dates inclusive)</u>	<u>Redemption Price</u>
March 1, 2010 through February 28, 2011	101.0%
March 1, 2011 through February 29, 2012	100.5%
March 1, 2012 and thereafter	100.0%

### **Notice of Redemption**

Notice of redemption shall be mailed to registered owners of 2003 Bonds not less than 30 days prior to any optional redemption date, in the manner and upon the terms and conditions set forth in the Resolution. So long as a nominee of DTC is the registered owner of the 2003 Bonds, the Authority shall send the notice of redemption to DTC or its nominee and, if less than all of the 2003 Bonds of a maturity are to be redeemed, DTC and the Participants and, where appropriate, indirect Participants will determine the particular ownership interests of 2003 Bonds of such maturity to be redeemed. Any failure of DTC or a Participant or, where appropriate, indirect Participant to do so, or to notify a Beneficial Owner of a 2003 Bond of such redemption, will not affect the sufficiency or the validity of the redemption of the 2003 Bonds. The Authority can make no assurance that DTC, Participants, indirect Participants or other nominees of the Beneficial Owners of the 2003 Bonds will distribute such redemption notices to the Beneficial Owners of the 2003 Bonds, or that they will do so on a timely basis. See Appendix B.

### **Ownership of Bonds**

The Authority shall be entitled to treat the person in whose name any 2003 Bond is registered (including DTC or its nominee) as the absolute owner thereof for all purposes of the Resolution and applicable laws, notwithstanding any

notice to the contrary received by it. The Authority will have no responsibility or obligations, legal or otherwise, to the beneficial owners of 2003 Bonds or to any other party, except to the registered owner of any 2003 Bonds on the books of the Authority.

## **PLAN OF REFUNDING AND APPLICATION OF THE 2003 BOND PROCEEDS**

The 2003 Bonds are being issued to provide sufficient funds, together with other funds available to the Authority, to current refund (i) the 1986 Refunded Bonds, consisting of \$1,696,000 of the \$4,321,000 of the outstanding 1986 Refunding Series A Bonds which mature on March 1, 2015, and (ii) the 1993 Refunded Bonds, consisting of the following outstanding 1993 Refunding Series A Bonds: \$1,840,000 of the \$4,650,000 such bonds which mature on March 1, 2005, \$1,585,000 of the \$3,185,000 such bonds which mature on March 1, 2007, and \$3,260,000 of the \$7,480,000 such bonds which mature on March 1, 2011. The refunding will result in debt service savings to the Authority and the Local Government Units. The Refunded Bonds will be redeemed on March 1, 2003 (the "Redemption Date").

Upon delivery of the 2003 Bonds, the Authority will enter into a Refunding Trust Agreement with the Treasurer of the State of Tennessee, as Refunding Trustee, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement will create an irrevocable Trust Fund, to be held by the Refunding Trustee, to be applied to the payment of the Refunded Bonds. The Authority will deposit proceeds of the 2003 Bonds and other available funds with the Refunding Trustee for deposit in the Trust Fund, which will be used by the Refunding Trustee to purchase direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America ("Government Obligations") maturing in amounts and at times, and bearing interest at rates, sufficient without reinvestment (i) to redeem the 1986 Refunded Bonds on the Redemption Date at a redemption price of 100% of the principal amount to be redeemed, (ii) to redeem the 1993 Refunded Bonds on the Redemption Date at the redemption price of 102% of the principal amount to be redeemed, and (iii) to pay on the Redemption Date the interest on the Refunded Bonds accrued to such date. The Government Obligations will be purchased from the Treasury Department of the United States of America or in the open market through a competitive bidding process. If such securities are purchased in the open market, they may be so purchased from the Underwriter.

The Trust Fund, including the interest earnings on the Government Obligations, in the amount needed to pay the redemption price of and interest on the Refunded Bonds, is pledged solely for the benefit of the holders of the Refunded Bonds.

Upon issuance of the 2003 Bonds, the Refunded Bonds will be irrevocably designated for redemption as described above, and provision will be made in the Refunding Trust Agreement for the giving of notice of such redemptions.

Under the Resolution, by virtue of the provisions for redemption described above together with the irrevocable deposit and application of money and securities as provided by the Refunding Trust Agreement and certain other provisions of the Refunding Trust Agreement, the Refunded Bonds will be deemed to be paid and no longer outstanding under the Resolution.

The following shows the sources and uses of funds in connection with the issuance of the 2003 Bonds and the refunding of the Refunded Bonds.

### **Sources**

Principal of 2003 Bonds	\$8,295,000
Net Premium	58,054
Other Available Funds	<u>657,746</u>
Total Sources	<u><b>\$9,010,800</b></u>

### **Uses**

Deposit to Trust Fund for Refunded Bonds	\$8,737,942
Costs of Issuance including Underwriter's Discount	209,280
Deposit to Debt Service Reserve Fund	<u>63,578</u>
Total Uses	<u><b>\$9,010,800</b></u>

## THE AUTHORITY

The Authority was created in 1978 under the Act as a body, politic and corporate, and as a public agency and instrumentality of the State. Under the Act, the Authority and its corporate existence shall continue until terminated by law, and the Act provides that no such law shall take effect so long as the Authority shall have bonds, notes or other obligations outstanding.

The powers of the Authority, as defined in the Act, are vested in and exercised by its members who consist of the Governor, the Comptroller of the Treasury, the Secretary of State, the State Treasurer and the Commissioner of Finance and Administration, together with one member who is appointed by the Speaker of the Senate from a list of three individuals nominated by the Tennessee County Services Association, and one member who is appointed by the Speaker of the House of Representatives from a list of three individuals nominated by the Tennessee Municipal League. Under the Act, the Governor serves as Chairman of the Authority, and the Comptroller of the Treasury serves as Secretary.

The Authority is delegated the responsibility for issuing its debt obligations to provide funds for the following purposes: (i) to make loans to local governments for the State Loan Programs, limited to \$302,805,000 outstanding at any time, and for capital projects, limited to \$50,000,000 outstanding at any time; (ii) to make loans to certain small business concerns for pollution control facilities, limited to \$50,000,000 outstanding at any time; (iii) to make loans to farmers for certain capital improvements, limited to \$30,000,000 outstanding at any time; (iv) to make loans to counties for the acquisition of equipment for use by county or volunteer fire departments serving unincorporated areas of the counties, limited to \$10,000,000 issued; (v) to make loans to airport authorities and municipal airports, limited to \$200,000,000 issued; and (vi) to make loans to mental health/mental retardation/alcohol and drug facilities, limited to \$50,000,000 outstanding at any time (the "Community Provider Pooled Loan Program"). The Authority, in conjunction with the Department of Environment and Conservation, administers the State's Revolving Loan Fund established pursuant to the Wastewater Facilities Act of 1987 and the State's Revolving Loan Fund for water facilities established pursuant to the Drinking Water Revolving Loan Fund Act of 1997.

To date, the Authority has issued debt only to fund the State Loan Programs and the Community Provider Pooled Loan Program. All outstanding indebtedness relating to the Community Provider Pooled Loan Program has been refunded by issuance of State of Tennessee general obligations and no additional Authority debt will be incurred for this program.

Upon delivery of the 2003 Bonds, the only outstanding indebtedness of the Authority secured under the Resolution will be the unrefunded portion of the 1986 Series A Bonds, the unrefunded portion of the 1993 Series A Bonds, the 1997 Series A Bonds, the 2002 Notes and the 2003 Bonds. As described in "PLAN OF REFUNDING AND APPLICATION OF THE 2003 BOND PROCEEDS", the 1986 Refunded Bonds and the 1993 Refunded Bonds will be redeemed March 1, 2003.

**The Authority has no taxing power, and the State is not liable on the Bonds or Notes of the Authority, including the 2003 Bonds, and such Bonds or Notes are not a debt of the State.**

## THE STATE LOAN PROGRAMS

Since the early 1970's, the State, through the Department, has provided financial assistance to Local Government Units in connection with the construction and improvement of water, sewer and energy recovery facilities and solid waste resource recovery facilities pursuant to the State Loan Programs. State legislation was initially enacted in 1970 authorizing the State to make loans to Local Government Units for their share of the cost of federally-subsidized sewage treatment facilities. In 1974, legislation authorized the State to make loans to Local Government Units for the full cost of constructing and improving waterworks and energy recovery facilities and solid waste resource recovery facilities. In 1996, the authority for Local Government Units to enter into Loan Program Agreements for energy recovery facilities and solid waste resource recovery facilities was repealed.

The State Loan Programs were initially funded through the issuance of general obligation bonds of the State and certain general obligation bond anticipation notes of the State (the "State Program Notes"). All general obligations of the



State are authorized by the General Assembly and issued by the Funding Board. Prior to the initial issuance of obligations of the Authority in 1978, approximately \$85.2 million of general obligation bonds authorized for State Loan Programs were issued to provide permanent financing for certain projects under the State Loan Programs of which \$13.9 million remain outstanding.

The Authority's issuance of its Bonds, including the 2003 Bonds, and Notes provides assistance of the character previously provided by the State to Local Government Units through the issuance of general obligation bonds and notes. Under the Act, the Authority is empowered, among other things, to issue Bonds and Notes for the purpose of providing money to finance or refinance Program Loans under the State Loan Programs or to retire Notes or State Program Notes issued to provide interim financing for such Program Loans. The proceeds of such Bonds and Notes are required by the Act to be applied by the Authority, as it deems necessary, to provide sufficient moneys to carry out the purposes of the State Loan Programs.

## **SECURITY FOR THE 2003 BONDS**

### **In General**

The 2003 Bonds will be limited special obligations of the Authority. (See "Limited Special Obligations" below.)

Principal of and interest and premium, if any, on Bonds, including the 2003 Bonds, and interest on Notes, are payable from, and secured by, all income, fees, charges, receipts, earnings and other moneys derived by the Authority in connection with the financing of State Loan Programs by the Authority (the "Revenues"). The term "Revenues" is defined in the Resolution and includes (i) all payments made by Local Government Units under the Loan Program Agreements, excluding payments of principal on Program Loans made during the time such Program Loans are financed by Notes, or the earnings on such payments, and payments earmarked by the Authority as reimbursements to the Statutory Fund hereinafter described; (ii) the earnings on and the income derived from the investment of the proceeds of Bonds and Notes and any other moneys held by the Authority under the Resolution; (iii) State Shared Taxes, but only at such time as such taxes have been withheld pursuant to law and a Loan Program Agreement and have become the property of the Authority; and (iv) amounts from the Statutory Fund paid to the Authority upon request of the Authority. (See "Limited Payments from Statutory Fund" below in this section.) The Authority's rights and interest in the Loan Program Agreements and all moneys held under the Resolution are also pledged, assigned and charged as additional security for the payment of principal of and interest and premium, if any, on the Bonds, including the 2003 Bonds, and interest on Notes, provided that under the Resolution no individual holder may bring an action to require payment or otherwise enforce the Loan Program Agreements against a Local Government Unit; and further provided that such pledge, assignment and charge are subject to the prior claim of the State for reimbursements to the Statutory Fund to the extent reimbursements have not been made from other sources. (See THE LOAN PROGRAM AGREEMENTS and STATE SHARED TAXES.)

The Bonds are also secured by the Bond Reserve Fund. (See "Bond Reserve Fund" below.)

The 2003 Bonds are payable and secured on a parity with all other Bonds heretofore and hereafter issued under the Resolution. Notes may be issued, payable and secured as to interest on a parity with all Bonds and other Notes issued under the Resolution. (See APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.)

### **State Shared Taxes**

Each Loan Program Agreement contains a pledge by the Local Government Unit of its allocation of State Shared Taxes to the extent necessary to pay its Program Loan. Under the Resolution, State Shared Taxes are pledged to the payment of principal of and interest on Bonds, including the 2003 Bonds, and interest on Notes, but only at such times as such taxes have been withheld pursuant to law and a Loan Program Agreement and have become the property of the Authority. The statutes establishing the State Loan Programs require the State Commissioner of Finance and Administration to withhold State Shared Taxes from the Local Government Unit in the amount of the payments required under the Loan Program Agreement upon failure of the Local Government Unit to make such payments. (See "Withheld State Shared Taxes" under "THE LOAN PROGRAM AGREEMENTS", "CERTAIN REQUIREMENTS OF THE ACT AND THE RESOLUTION" and "STATE SHARED TAXES.")

Although State Shared Taxes are currently imposed and collected by the State and allocated to Local Government Units by statutory formulae as described under "STATE SHARED TAXES", there is no assurance that the State will continue to impose or collect State Shared Taxes, impose or collect such taxes at current rates or with respect to current tax bases, or allocate such taxes to Local Government Units in accordance with current practices or statutory formulae. The State's General Assembly has considered, and in the future may consider revisions of the State's tax structure, and any such revisions may affect the State Shared Taxes currently imposed and collected by the State and allocated to Local Government Units. In addition, there can be no assurance that State Shared Taxes will be available if they are withheld to satisfy withholdings permitted by other State law, as described under "STATE SHARED TAXES". The State is experiencing revenue shortfalls compared to budgeted levels for the 2002-2003 fiscal year, which ends on June 30, 2003. The Authority cannot predict whether and how the current or any future revenue shortfall will be addressed, or the level of funding that the Local Government Units will receive from State revenues or the effects any reduction in such revenues may have on the activities of the Local Government Units.

### **Bond Reserve Fund**

Under the Resolution, a Bond Reserve Fund has been created. There is required to be deposited in such fund at the time of or prior to delivery of each series of Bonds an amount such that there will be on deposit therein an amount equal to the maximum annual debt service on all series of Bonds then outstanding. When a series of refunding Bonds is issued for the purpose of refunding a series of Bonds in whole or in part, the required amount to be on deposit in the Bond Reserve Fund shall be calculated for the series of refunding Bonds and for each series of Bonds (if any) to be outstanding after the issuance of the series of refunding Bonds, as if all such Bonds were of one series. Moneys credited to the Bond Reserve Fund shall be used solely for the payment of the principal of (including sinking fund installments) and interest and premium, if any, on the Bonds, including the 2003 Bonds.

Any excess in the Bond Reserve Fund over the amount required to be held therein may be transferred to the State Loan Programs Fund. Subject to the foregoing, in the event the Authority is required to withdraw moneys from the Bond Reserve Fund, the Authority is required to restore the moneys so withdrawn from the first available Revenues, subject to required payments to the Bond Fund, which are to be withdrawn from the State Loan Programs Fund. (See APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.)

### **Limited Payments from Statutory Fund**

The Act establishes a Local Development Authority Statutory Reserve Fund (the "Statutory Fund") as a separate special trust fund of the State. The Statutory Fund is required by the Act to be maintained in an amount equal to the Fund Requirement. The Fund Requirement is the aggregate of the amount determined for each Program Loan for each Local Government Unit at the time such Program Loan is approved, as set forth in a certificate of the Comptroller of the Treasury of the State, as the excess, if any, of (i) the maximum payments required to be made to the State by such Local Government Unit in any fiscal year under all Loan Program Agreements, including payments that will be required with respect to the Program Loan then being approved, over (ii) the total amount of State Shared Taxes which such Local Government Unit received in the fiscal year prior to the date such Program Loan is approved which was not applied to other indebtedness of the Local Government Unit in such fiscal year ("Unobligated State Shared Taxes"). The Statutory Fund is funded from any available source, including appropriations pursuant to law, received by the Authority for such purpose. At the end of each calendar year the Authority is required by the Act to certify to the Governor of the State the amount of the deficiency, if any, in the Statutory Fund (valuing investments in such Fund at face value). The Governor is required by the Act to include in his recommended budget next submitted to the General Assembly a line item appropriation in an amount equal to the deficiency in the Statutory Fund. Such amount, if appropriated by the General Assembly, is required by the Act to be apportioned and paid to the Authority for deposit in the Statutory Fund. The General Assembly is not obligated to make any such appropriation to the Statutory Fund. There can be no assurance that there will be on deposit in the Statutory Fund at any or all times an amount equal to the Fund Requirement. Failure to maintain the Statutory Fund at the Fund Requirement will not constitute an Event of Default under the Resolution.

Under the Resolution, if, at the time a Loan Program Agreement of a Local Government Unit is approved, the total estimated annual payments by such Unit under State Loan Programs exceeded the Unobligated State Shared Taxes received by such Unit in the preceding fiscal year, an amount in the Statutory Fund equal to such excess is allocated to

that Loan Program Agreement. (See "Certain Conditions for Entering Into Loan Program Agreements" under "CERTAIN REQUIREMENTS OF THE ACT AND THE RESOLUTION.") Moneys and securities on deposit in the Statutory Fund will become available upon request of the Authority for the payment of principal of and interest on Bonds, including the 2003 Bonds, and interest on Notes if there is on a payment date a deficiency in the Bond Fund after transfers from the Bond Reserve Fund (with respect to Bonds only) and the General Fund, and if the Local Government Unit fails to make a payment required under such Loan Program Agreement and its State Shared Taxes available to the Authority pursuant to withholdings of such taxes under the State Loan Programs are insufficient for such payment, but only to the extent of the amount originally allocated to such Loan Program Agreement.

The current total Statutory Fund Requirement is \$175,539 of which \$73,272 is allocated to loan agreements included in this bond issue as shown in Appendix E, Schedule 2. Under the Act, earnings on the Statutory Fund are required to be retained therein, and amounts on deposit in excess of 200% of the Statutory Fund Requirement may be withdrawn at the end of each fiscal year and may not be available to secure Bonds and Notes. The current Statutory Fund balance exceeds \$351,078.

### **Trustee**

SunTrust Bank, Nashville, N.A., Nashville, Tennessee, has been appointed Trustee under the Resolution. Prior to the occurrence of an Event of Default under the Resolution, the Trustee has no duties as a trustee under the Resolution and the Authority will hold all funds established by the Resolution as provided therein for the benefit of the holders of the Bonds and Notes.

Upon the occurrence of an Event of Default of which the Trustee has actual notice under the Resolution, the estate, properties, rights, powers, trusts, duties and obligations granted to the Trustee thereunder shall vest in the Trustee, unless and until all such Events of Default shall have been cured in accordance with the Resolution. (See APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.)

### **Limited Special Obligations**

Under the Act and the Resolution, the Bonds and Notes of the Authority, including the 2003 Bonds, do not constitute a debt or a pledge of the faith and credit of the State or any Local Government Unit, and the holders or owners of Bonds and Notes have no right to have taxes levied by the General Assembly of the State or any Local Government Unit or any other taxing authority within the State for the payment of the principal of and interest and premium, if any, on Bonds and Notes but such Bonds and Notes are payable solely from the revenues and moneys pledged for their repayment.

### **Acquisition of Bonds and Notes by the State**

Pursuant to Section 94-602(b), Tennessee Code Annotated, the Funding Board of the State of Tennessee is granted power to authorize the State Treasurer to invest an amount of cash in the State Treasury as the Funding Board deems appropriate in obligations of the State or any agency of the State maturing in not more than one year from the date of such investment, provided the Funding Board shall have determined that such obligations (i) could not otherwise be sold in traditional markets at reasonable rates of interest, and (ii) that the yield on such obligations shall be equal to or greater than the yield on other obligations in which the State could otherwise invest (such yield to be determined by the Funding Board with the concurrence of the State Treasurer). On July 19, 1983 the Funding Board adopted a resolution providing that in the event the Funding Board and the State Treasurer shall make the determinations required by said Section, the State Treasurer shall invest moneys in the State Treasury in obligations of the State or any agency of the State (which could include obligations issued to repay the 2003 Bonds) to the extent the Funding Board deems such investment is appropriate. The determinations required to be made by the Funding Board and the State Treasurer under said Section are discretionary and will be made based on facts and circumstances existing at the time of consideration of such determinations. There can be no assurance that the Funding Board or the State Treasurer will make such determinations as of any particular time or under any particular circumstance or that there will be moneys available in the State Treasury for investment.

To date, there has been no default of any loan in the State Loan Programs.

**The Authority has no taxing power, and the State is not liable on the Bonds or Notes of the Authority, including the 2003 Bonds, and such Bonds or Notes are not a debt of the State.**

## **THE PROJECTS**

The proceeds of the 2003 Bonds, exclusive of any accrued interest, will be used for the purposes of refinancing Program Loans to Local Government Units to finance the construction, acquisition and improvement of sewage treatment works pursuant to Sections 68-221-201 through 68-221-214 of the Tennessee Code Annotated; waterworks pursuant to Sections 68-221-501 through 68-221-519 of the Tennessee Code Annotated; and energy recovery facilities and solid waste resource recovery facilities pursuant to Sections 68-211-401 through 68-211-417 of the Tennessee Code Annotated (the foregoing facilities are referred to in this Official Statement as "Projects"). Costs of issuance of a portion of the 2003 Bonds will be paid by the Authority from moneys available for such purposes and not from proceeds of the 2003 Bonds.

As required by the Resolution, the proceeds of the 2003 Bonds used to refinance Projects will be applied only to Projects for which Loan Program Agreements are in effect. (See PLAN OF REFUNDING AND APPLICATION OF THE 2003 SERIES A BOND PROCEEDS above.)

The Projects refinanced by the proceeds of the 2003 Bonds (the "2003 Bond-funded Projects") include 23 facilities, of which 16 are sewage treatment works, and 7 are waterworks construction. The 2003 Bond-funded Projects are located in 17 different Local Government Units throughout the State. All 2003 Bond-funded Projects are operational and are generating revenues or other moneys from operations.

The information set forth in Appendix E to this Official Statement with respect to particular Projects and Local Government Units, estimated annual payments required to be made under Loan Program Agreements, State Shared Taxes pledged to the Loan Program Agreements, amounts allocated to Program Loans in the Statutory Fund, and Allocable Amount of Bonds relates only to the 2003 Bond-funded Projects of Local Government Units that have received Program Loans.

## **CERTAIN REQUIREMENTS OF THE ACT AND THE RESOLUTION**

### **Certain Conditions for Issuance of Bonds**

Under the Act and the Resolution, the Authority may not issue Bonds, including the 2003 Bonds, unless the Comptroller of the Treasury of the State has certified, among other things, that (i) a Loan Program Agreement is in effect with respect to each Local Government to which a Program Loan is to be made from the proceeds of such bonds, and (ii) the aggregate of the payments by all Local Government Units under all Loan Program Agreements will be sufficient, together with other funds available for such purposes, to pay the principal of and interest and premium, if any, on all Bonds to be outstanding after the issuance of such Bonds and to fulfill any and all other obligations of the Authority.

### **Certain Conditions for Issuance of Notes**

Under the Act and the Resolution, the Authority may not issue Notes unless the Comptroller of the Treasury of the State has certified with respect to Local Government Units to which Program Loans are to be made (or refinanced) from at least 75% of the proceeds of such Notes available for Program Loans that, among other things, (i) Loan Program Agreements are in effect, and (ii) the issuance of such Notes will not affect the ability of the Authority to pay the principal of and interest and premium, if any, on any Bonds of the Authority to be outstanding after the issuance of such Notes and to fulfill any and all other obligations of the Authority, including the payment of interest on all Notes to be outstanding after the issuance of such Notes.

### **Certain Conditions for Entering into Loan Program Agreements**

Under the Resolution, the Authority may not enter into a Loan Program Agreement with any Local Government Unit unless the Comptroller of the Treasury of the State has filed a certificate with the Authority setting forth certain information with respect to such Program Loan and evidencing that as of the date of approval of the Program Loan the total amount of payments required to be made by such Local Government Unit in each fiscal year of the State under Loan Program Agreements (including the Loan Program Agreement to which the certificate relates) and under contracts (other than Loan Program Agreements) providing for loans or grants under a State Loan Program from the proceeds of general obligation bonds and bond anticipation notes, will not exceed two hundred percent (200%) (or such lower percentage as the Authority shall determine) of the amount of State Shared Taxes that such Local Government Unit received in the preceding fiscal year, after deducting the amount of such State Shared Taxes applied to other indebtedness (excluding obligations under Loan Program Agreements) of such Local Government Unit in such fiscal year. With respect to a Local Government Unit that received such unobligated State Shared Taxes in an amount less than 100% of the total annual payments required to be made by such Local Government Unit under all such Loan Program Agreements, the Authority will only enter into a Loan Program Agreement if an amount equal to such difference is on deposit in the Statutory Fund and is available for the purpose of such Loan Program Agreement.

In estimating or calculating the payments required to be made under Loan Program Agreements for purposes of the certificate just described, the Authority is required to include, (i) with respect to Loan Program Agreements for which Bonds have been issued and are outstanding, actual debt service requirements, and (ii) with respect to Loan Program Agreements for which no funding has been provided or for which interim financing is being provided, debt service requirements determined by the Authority at the time of approval of such Loan Program Agreements as if the Bonds to be issued to fund such Program Loans will bear such interest and mature in such manner as the Authority shall determine at the time of such approval. The rate of interest currently established by the Authority for purposes of determining annual debt service under the Loan Program Agreements in order to approve a Program Loan (the calculation described above) is 13%. The Authority set this rate in 1981 and reviews this rate periodically.

Since the estimate of annual debt service on the Face Amount of the Program Loan is made at the time the Loan Program Agreement is entered into using the then effective rate of interest established by the Authority, that rate of interest may be lower than the actual rate of interest on the Bonds to be issued to provide permanent financing for such Program Loan. In such event the Local Government Unit's allocation of unobligated State Shared Taxes for the fiscal year immediately preceding the year in which the Loan Program Agreement relating to such Program Loan is entered into may be less than the annual payments actually required under all of its Loan Program Agreements and other contracts just described. Bonds may nonetheless be issued under the Act and the Resolution, provided that the sum of the payments required to be made by each Local Government Unit under each Loan Program Agreement to be financed by the Bonds is sufficient to meet the debt service requirements on the Bonds. (See "Monthly Payments by Local Government Units" and "Pledges and Source of Payments by Local Government Units" under "THE LOAN PROGRAM AGREEMENTS.")

Schedule 1 in Appendix E to this Official Statement sets forth, with respect to each Local Government Unit that has entered into a Loan Program Agreement for a 2003 Bond-funded Project, the Allocable Amount of Bonds for each type of 2003 Bond-funded Project and the annual debt service required thereunder.

Schedule 2 in Appendix E to this Official Statement sets forth with respect to the Local Government Units that have entered into Loan Program Agreements for 2003 Bond-funded Projects, (1) the amount of State Shared Taxes which each such Local Government Unit received in fiscal year 2002, after deducting the amount of such State Shared Taxes pledged to other indebtedness (other than obligations under Loan Program Agreements); (2) the total amount of payments required to be made by each such Local Government Unit in each fiscal year (a) under contracts providing for Program Loans from the proceeds of general obligation bonds of the State previously issued and outstanding; (b) under Loan Program Agreements providing for Program Loans from the proceeds of the Bonds using the rate of interest on the Bonds; and (c) under Loan Program Agreements providing for Program Loans from the proceeds of 2003 Bonds of the Authority as estimated by the Authority using the rate of interest currently established by the Authority under such Loan Program Agreements; and (3) the amount, if any, of the Statutory Fund allocable to such Program Loans. (A lower rate of interest may have been established and used by the Authority at the time the Program Loans referred to in Schedule 1 were approved.)

## **REVIEW AND APPROVAL PROCESS FOR THE FINANCING**

## OF PROJECTS BY THE AUTHORITY

In accordance with the legislation establishing the State Loan Programs in effect at the time Loan Program Agreements for Current Projects were entered into, the procedures for obtaining assistance from the Authority for financing the cost of Projects were as follows:

The Department in conjunction with the United States Environmental Protection Agency ("EPA") establishes priority and determines eligibility for sewage treatment facilities to be financed in part by the Authority and in part by EPA. The Department alone establishes priority and determines eligibility for waterworks construction and those sewage treatment facilities not utilizing EPA financing.

The Local Government Unit initially submits an application to the Department for a Program Loan either for the Local Government Unit's share of an EPA assisted proposed Project, or for the entire amount of a proposed Project without federal support. The Authority then determines whether Authority funds are available for the proposed Project and, if so, whether State Shared Taxes not otherwise pledged will satisfy a level debt service at an assumed interest rate established by the Authority. If State Shared Taxes not otherwise pledged do not satisfy the requirements of the Authority under the calculations described under "Certain Conditions for Entering into Loan Program Agreements", in "CERTAIN REQUIREMENTS OF THE ACT AND THE RESOLUTION", the Department returns the application to the Local Government Unit for modification or other disposition.

If the application is tentatively accepted, the Local Government Unit must adopt proper resolutions that authorize the Chief Executive Officer (e.g., the Mayor or County Executive) to execute the necessary documents, commit the Local Government Unit to accept the method of financing determined by the Authority and to levy fees, rates, charges, and/or ad valorem taxes, if necessary, sufficient to amortize the Program Loan, and confirm that the Local Government Unit cannot otherwise obtain necessary funds at a reasonable cost.

The Chief Executive Officer then executes the Loan Program Agreement with the following required attachments for submission to the Department: (a) the application; (b) the authorizing resolutions of the Local Government Unit; (c) a description of the entire proposed Project; (d) an incumbency certificate relating to the signature of the official of the Local Government Unit executing the Loan Program Agreement; (e) an opinion of the Attorney for the Local Government Unit relating to legal matters; (f) a certificate of the Chief Executive Officer attesting to the representations made in the Loan Program Agreement; (g) a letter from an independent licensed engineer certifying as to the estimated completion date and the reasonableness of the estimated total cost of the proposed Project; and (h) a copy of the Charter of the Local Government Unit, or a certificate of its existence under State Law.

The Loan Program Agreement is signed by the Commissioner of the Department to indicate the Departmental approval of the Project and by the Commissioner of the Department of Finance and Administration to confirm that Authority funds are available. The Loan Program Agreement is then presented to the Authority and Funding Board for approval. Upon approval by the Authority and the Funding Board, the Loan Program Agreement is then forwarded to the State Attorney General for approval as to form.

Loan Program Agreements may be increased as to principal by executing a new Loan Program Agreement. The new Loan Program Agreement is subject to the same approval process as the original Loan Program Agreement. Decreases as to principal in the Loan Program Agreement are either requested or acknowledged by the Chief Executive Officer of the Local Government Unit and recorded in the minutes of the Authority.

Payments to the Local Government Unit are made by the Authority against invoices and/or EPA payment documents upon approval by the Department.

Local Government Units may select a repayment period for the Loan Agreement not to exceed the useful life of the Project or 30 years, whichever is less. The repayment schedule is structured as follows:

### (1) **Projects Financed from Note Proceeds:**

- (a) Projects not yet Operational - Repayments are made in amounts at least equal to the interest cost on the Loan Program Agreement.
- (b) Operational Projects - Repayments are made in amounts at least equal to the Authority's interest cost on the Loan Program Agreement, together with an appropriate principal amount computed on the basis of level principal amortization for the remaining life of the Loan Program Agreement.

(2) **Projects Financed from Bond Proceeds:**

Repayments are made in amounts sufficient to pay debt service requirements on the Local Government Unit's respective portion of Bonds issued for such purposes.

Interest earnings on construction funds and on funds that have been repaid by a Local Government Unit to the Authority are determined by the State Treasurer at the rate advised by the State Treasurer. Interest earnings on these repayments are distributed to the Local Government Unit as determined by the Authority pursuant to the Resolution.

By resolution adopted May 17, 1989 pursuant to Section 10.1 of the Resolution, the Authority amended certain provisions of the General Bond Resolution relating to the State Funding Board to conform to the provisions of Public Chapter 233 of the Public Acts of 1989, effective May 3, 1989. Pursuant to this legislation, the State Funding Board is not required to approve Program Loan Agreements entered into after May 3, 1989.

## **THE LOAN PROGRAM AGREEMENTS**

Each Program Loan made to a Local Government Unit under the State Loan Programs is required to be repaid pursuant to a Loan Program Agreement, which is entered into by and among the Department, the Funding Board (prior to May 3, 1989), the Authority and the Local Government Unit. (See "REVIEW AND APPROVAL PROCESS FOR THE FINANCING OF PROJECTS BY THE AUTHORITY", for a description of the current procedures for obtaining assistance from the Authority through the State Loan Programs.)

The following description is a brief summary of the Loan Program Agreements and does not purport to be complete. Reference is made to the Loan Program Agreements, copies of which are available from the Authority.

### **Monthly Payments by Local Government Units**

Each Loan Program Agreement requires the Local Government Unit to make monthly payments to the Authority at least sufficient to pay debt service on that portion of the Bonds, including the 2003 Bonds, and interest on that portion of Notes issued to finance the cost of making the Program Loan for the Project. In addition, Local Government Units are required to commence level principal amortization payments on Program Loans financed by notes when the Projects financed become operational, and these payments, to the extent they constitute repayment of principal of a Program Loan, are pledged to the payment of principal on the Notes.

The payments required to be made by Local Government Units under the Loan Program Agreements include amounts necessary to pay debt service on all Bonds issued to finance the applicable Program Loan, including Bonds the proceeds of which will be used to fund, or replenish, the Bond Reserve Fund established under the Resolution. To the extent that a Local Government Unit's payments allocated to Bonds issued to fund the Bond Reserve Fund are not required to be used by the Authority to pay debt service on the Bonds, that Local Government Unit will be effectively credited for an excess payment. The Face Amount of the Program Loan includes all Bonds issued to finance the cost of the Project (including those estimated to be issued to fund the Bond Reserve Fund). For purposes of determining eligibility and for meeting the conditions for making any Program Loan (described under "CERTAIN REQUIREMENTS OF THE ACT AND THE RESOLUTION") the Face Amount of the Program Loan is used to determine estimated debt service requirements under the Loan Program Agreement.

The Loan Program Agreements do not contain any provision for acceleration of payments thereunder upon the occurrence of an Event of Default by the Authority under the Resolution.

### **Pledges and Source of Payments by Local Government Units**

In the case of Projects consisting of sewage treatment works or waterworks, Local Government Units are required by statute and the Loan Program Agreements to establish and collect user fees and/or ad valorem taxes in amounts sufficient to pay costs of operation and maintenance of the sewage treatment works or waterworks, including depreciation according to generally accepted accounting principles, and to make the monthly payments required for debt service on the Bonds (including sinking fund installments) and Notes issued for the purpose of providing Program Loans therefor and to remit such monthly debt service payments directly to the Authority. Further, the Local Government Units are required in the Loan Program Agreements to pledge such amounts to pay the cost of the Project.

Certain Local Government Units have issued and have outstanding revenue obligations payable from the revenues of systems of which Projects financed from the proceeds of Program Loans are a part. Such revenue obligations of a Local Government Unit that were issued prior to entering into a Loan Program Agreement have a prior lien on such revenues over the lien of the Program Loan. Under the terms of the Loan Program Agreement a Local Government Unit having such revenue obligations outstanding at the time it enters into a Loan Program Agreement may, with the consent of the Authority, issue additional obligations payable from the revenues of such a system on a parity with such revenue obligations. The additional obligations would also have a prior lien on such revenues over the obligation of such Local Government Unit to the Authority under the Loan Program Agreements. Under the terms of the Loan Program Agreements, Local Government Units having no outstanding obligations payable from the revenues of such a system at the time it enters into a Loan Program Agreement may, with the consent of the Authority, issue obligations payable on a parity with the obligation of such Local Government Unit to the Authority under the Loan Program Agreement. In either case, prior to consenting to the issuance of such obligations, the Authority, under the Loan Program Agreements, requires the Local Government Unit seeking approval of such issuance to evidence, as certified by a licensed public accountant or a certified public accountant, that, in the fiscal year of such Local Government Unit immediately preceding the fiscal year in which the proposed obligations are to be issued, the net revenues of the system of which a Project constitutes a part were at least equal to the maximum aggregate debt service required in any future year on (i) all outstanding obligations, if any, of such Local Government Unit payable from the revenues of such system, and (ii) all obligations of such Local Government Unit under Loan Program Agreements payable from the revenues of such system. The Authority further requires, under the Loan Program Agreements, prior to consenting to the issuance of any such obligations, that the Local Government Unit seeking such approval, provide a certificate to the effect that such revenues and other moneys, as estimated by a licensed public accountant or certified public accountant, to be received by the Local Government Unit in each of the two fiscal years of the Local Government Unit immediately following the fiscal year in which the system being financed is to be placed in service, after deductions for operating and maintenance expenses, will be equal to at least 110% of the maximum aggregate debt service on (i) all outstanding obligations, if any, and the proposed obligations of such Local Government Unit payable from the revenues of or other moneys pledged with respect to such system, and (ii) all obligations of such Local Government Unit under Loan Program Agreements payable from the revenues of or other moneys pledged with respect to such system.

### **Withheld State Shared Taxes**

In addition to the foregoing agreements and pledges made by Local Government Units under the Loan Program Agreements, each Local Government Unit is required to pledge its respective allocation of State Shared Taxes to the extent necessary to pay the Program Loan. (See "STATE SHARED TAXES.")

Under the statutes establishing the State Loan Programs, if a Local Government Unit fails to remit payments required to be made under its Loan Program Agreements, the Commissioner of Finance and Administration of the State is required to deliver written notice of such failure within five days. If a Local Government Unit should fail to remit the amount set forth in the notice within 60 days of receipt of such notice, the Commissioner is required by statute, without further authorization, to withhold such amount or part of such amount from any State Shared Taxes which are otherwise apportioned to such Local Government Unit. Although State Shared Taxes, when apportioned and paid to a Local Government Unit, may be required by statute to be used for a particular purpose, the Commissioner is required to withhold such taxes before they are so apportioned and paid. Under each Loan Program Agreement, the Authority may direct the amount so withheld to be paid over to the Authority for the payment of debt service on Bonds and Notes issued to finance the Project to which it relates. The Authority has covenanted in the Resolution to enforce diligently the Loan Program Agreements and to take all reasonable steps, actions and proceedings necessary to cause State Shared Taxes to be withheld and paid over to the Authority at such times and to the extent permitted by law and the terms of the Loan Program Agreements. (See "Certain Conditions for Entering into Loan Program Agreements" under "CERTAIN REQUIREMENTS OF THE ACT AND THE RESOLUTION.")



In addition to the Act, other provisions of State law permit the withholding of State Shared Taxes to secure loans made to Local Government Units for various purposes. However, the Act provides that notwithstanding the provisions of any other law, moneys withheld from State Shared Taxes apportioned to Local Government Units as permitted under the terms of the State Loan Programs shall be paid into the Loan Programs Fund and applied by the Authority solely to pay debt service on Bonds and Notes, refunding moneys due to Local Government Units where appropriate, and paying other costs incidental to the administration of the State Loan Programs and the issuance of Bonds and Notes. See "STATE SHARED TAXES."

There can be no assurance that State Shared Taxes will exist or be sufficient to secure any or all program loans, or that the amount of the State Shared Taxes allocated to a particular Local Government Unit will be sufficient to fully secure such Unit's Program Loan. See "STATE SHARED TAXES".

### **Additional Program Loans; Prepayments**

If the final cost of any project, plus costs of funding and debt service reserves to be funded as part of the related Project Loan, exceeds the total amount of the related Project Loan, the Local Government Unit agrees to apply for an increase in the Program Loan.

Prior to the issuance of Bonds by the Authority for the permanent funding of a Program Loan, the Local Government Unit at its option may prepay all or any portion of the Program Loan. On or after the date of such Bonds, the Local Government Unit may not prepay the Program Loan without the prior written consent of the Authority.

### **Certain Covenants of the Authority**

The Authority has covenanted in the Resolution from and after the date thereof not to enter into any Loan Program Agreements for the purpose of making any Program Loans unless it has complied in all respects with the Act and, among other things, (i) the Program Loan is made to a Local Government Unit pursuant to and in accordance with a State Loan Program under the Act; (ii) the Loan Program Agreement contains the security provisions required by the Act and is secured by the pledge and assignment to the Authority of (A) all revenues, income and receipts of the Local Government Unit from the fees, rates, or charges and ad valorem taxes described above under "Pledges and Source of Payments", and (B) State Shared Taxes, not otherwise pledged, as described above under "Withheld State Shared Taxes", up to the maximum annual debt service requirements under the Loan Program Agreement; (iii) the Program Loan bears interest at a rate at least equal to the rate borne by the Bonds or Notes issued to finance or refinance it; and (iv) and the Authority receives certain documents, certificates, and opinions required under the Resolution relating to the validity of the Loan Program Agreement. As indicated, if the percentage of State Shared Taxes, not otherwise pledged, that such Local Government Unit received in the preceding fiscal year is less than 100% of the total annual payments required under all Loan Program Agreements, there shall then be an amount not less than the difference between such maximum annual debt service requirements and such State Shared Taxes in the Statutory Fund and available for the purpose of such State Loan Program.

The Authority has also covenanted that it will not disburse moneys under a Loan Program Agreement if (a) it determines that the Local Government Unit to receive moneys under such Loan Program Agreement will be unable to repay the Program Loan in a timely fashion, and (b) it has not received from such Local Government Unit: (i) a fully executed and completed Loan Program Agreement and attachments thereto, and (ii) certain documents, certificates, and opinions required under the Resolution relating to the validity of the Loan Program Agreement and certain representations made therein by the Local Government Unit.

## **STATE SHARED TAXES**

### **Description of State Shared Taxes**

State Shared Taxes are defined in the Act as taxes collected by the State pursuant to law and allocated by law to Local Government Units, in some cases for general use by the Local Government Unit and in other cases for a particular purpose. The Act authorizes the Authority to identify, from time to time, by resolution, the taxes constituting State Shared Taxes, and upon approval of the form and substance of such resolution by the State Attorney General, such identification is conclusive as to the identified taxes. The Authority has adopted a resolution, approved by the State Attorney General, declaring certain taxes to be State Shared Taxes within the meaning of the Act, the statutes establishing the State Loan Programs, and the Loan Program Agreements. The term State Shared Taxes, as defined in the Act, in resolutions of the Authority, and in the Resolution, includes the following taxes, which were disbursed to Local Government Units in the following respective aggregate amounts during the fiscal year of the State ended June 30, 2002.

<b>State Shared Tax*</b>	<b>Disbursements to Local Government Units (Fiscal Year 2002)</b>	<b>State Code Reference</b>
Gasoline Tax and Motor Vehicle Fuel Use Taxes	\$281,481,000	Title 67, Chapter 3
Sales and Use Tax (municipali- ties only)	215,693,000	Title 67, Chapter 6
Federal Payments in Lieu of Taxes	94,060,000	Title 67, Chapter 9
Tax on Income from Stocks and Bonds	68,653,000	Title 67, Chapter 2
Mixed Drink Tax	18,610,000	Title 57, Chapter 4
Alcoholic Beverage Tax (counties only)	4,992,000	Title 57, Chapter 3
Beer Tax	4,581,000	Title 57, Chapter 5

\*Source: Finance & Administration, Division of Accounts

The amounts in the foregoing table aggregate amounts of State Shared Taxes disbursed in fiscal year 2002 to all local government units in the State, including but not limited to Local Government Units participating in the State Loan Programs. State Shared Taxes allocated to a particular Local Government Unit are not authorized to be withheld to make payments under the Loan Program Agreement of any other Local Government Unit. Schedule 2 in Appendix E sets forth the unobligated State Shared Taxes in fiscal year 2002 for the Local Government Units that have entered into Loan Program Agreements for 2003 Bond-funded Projects, and the estimated debt service requirements of these Local Government Units. Schedule 3 in Appendix E hereto sets forth the amount of State Shared Taxes allocated in each fiscal year from 1998 through 2002 to the Local Government Units that have entered into Loan Program Agreements for 2003 Bond-funded Projects.

In addition to the Act, other provisions of State law permit the withholding of State Shared Taxes to secure loans made to Local Government Units for various purposes, including but not limited to loans made by the State for the acquisition and construction of waterworks, sewage treatment and wastewater facilities. However, the Act provides that notwithstanding the provisions of any other law, moneys withheld from State Shared Taxes apportioned to Local Government Units as permitted under the terms of the State Loan Programs shall be paid into the Loan Programs Fund and applied by the Authority solely to pay debt service on Bonds and Notes, refunding moneys due to Local Government Units where appropriate, and paying other costs incidental to the administration of the State Loan Programs and the issuance of Bonds and Notes

Although State Shared Taxes are currently imposed and collected by the State and allocated to Local Government Units by statutory formulae as described below, there is no assurance that the State will continue to impose or collect State Shared Taxes, impose or collect such taxes at current rates or with respect to current tax bases, or allocate such taxes to Local Government Units in accordance with current practices or statutory formulae. The State's General Assembly has considered, and in the future may consider revisions of the State's tax structure, and any such revisions may affect the State Shared Taxes currently imposed and collected by the State and allocated to Local Government Units. In addition, there can be no assurance that State Shared Taxes will be available if they are withheld to satisfy withholdings permitted by other State law. The State is experiencing revenue shortfalls compared to budgeted levels for the 2002-2003 fiscal year, which ends on June 30, 2003. The Authority cannot predict whether and how the current or any future revenue shortfall will be addressed, or the level of funding that the Local Government Units will receive from State revenues or the effects any reduction in such revenues may have on the activities of the Local Government Units.

### **Gasoline Tax and Motor Vehicle Fuel Use Taxes**

The tax imposed on distributors and dealers of gasoline was first enacted in 1923. The motor vehicle fuel use taxes (excise taxes on fuels other than gasoline, as defined by statute) were first imposed in 1941. The gasoline tax rate is currently twenty cents per gallon. Of the total gasoline tax rate, eleven cents is distributed under a formula which allocates approximately 14.3% of revenues to municipalities and 28.6% to counties. Three cents of the gasoline tax is allocated entirely to local governments, with approximately one-third being distributed to municipalities and approximately two-thirds to counties. The remaining gasoline tax is retained by the State. Effective January 1, 1989, gasohol is taxed and the tax revenue is distributed in the same manner as gasoline.

The taxes on motor vehicle fuels are composed of the diesel tax, which is currently 17 cents per gallon, and the tax on compressed natural gas used as motor vehicle fuel, which is currently 13 cents per gallon. Twelve cents of the motor vehicle fuel tax plus taxes derived from the issuance of "diesel tax prepaid user authorizations" and nine cents of the compressed natural gas tax is distributed under a formula which allocates approximately 12.38% to municipalities and 24.75% to counties. The remaining of the motor vehicle fuel taxes are retained by the State.

In fiscal year 2002, counties received a total combined allocation of \$187,518,541 pursuant to the Gasoline Tax and Motor Vehicle Fuel Use Taxes and municipalities received a total of \$93,962,406.

### **Sales and Use Tax**

The retail sales and use tax (the "Sales Tax"), first enacted in 1947 at the rate of 2%, immediately became the State's largest revenue producer. From April 1, 1984 until April 1, 1992 the rate was 5.5%. Pursuant to 1992 Tennessee Public Acts Chapter 529, which became law March 4, 1992, the General Assembly increased the Sales Tax rate to 6.0%, effective April 1, 1992 through June 30, 1994. This increase is earmarked for the State's general fund, to be used for educational purposes. In 1994, the General Assembly enacted legislation making this increase permanent. In 2002, the General Assembly increased the Sales Tax rate to 7%, effective July 15, 2002. In general, under current law, approximately 4.5% of the Sales and Use Taxes collected are distributed among the incorporated municipalities based on population. Municipalities received \$215,692,886 in fiscal year 2002.

### **Federal Payments in Lieu of Taxes**

The federal legislation creating the Tennessee Valley Authority (TVA) requires TVA to pay to the State a percentage of its gross revenues each year in lieu of taxes. In 1978, the State set the current base amounts for determining annual distributions to counties and municipalities of such TVA payments. Approximately 51.5% of the subsequent increase in proceeds from such TVA payments is allocated to counties and municipalities each year. Impacted areas experiencing TVA construction activities receive 3% of such increase. The remaining 48.5% of the increase is allocated 30% to municipalities, based on population, and 70% to counties, based on population, area, and, in part, on the percentage of TVA-owned land in the county. In fiscal year 2002, counties received a total of \$66,932,040 and municipalities a total of \$27,128,224 in state-shared TVA payments.

### **Tax on Income from Stocks and Bonds**

The income tax levied upon State taxpayers on their income derived by way of dividends on stocks and interest on bonds was enacted in 1931. The rate is 6% per annum on such income. Of the taxes collected, three-eighths of the net tax is distributed among cities and counties based on the residence of the taxpayer, totaling, in fiscal year 2002, \$27,586,947 for municipalities and \$11,065,852 for counties. Legislation enacted in 1985 for tax years ending on or after January 1, 1986, raised the amount of such income exempt from the tax, increased the total annual income limits below which senior citizens are not required to pay the tax and eliminated a lower tax rate on stock dividends from certain corporations.

### **Mixed Drink Tax**

The mixed drink tax was first enacted in 1967. The tax is levied at the rate of 15% of the sales price of all alcoholic beverages sold for consumption on the premises where sold. Fifty percent of the tax is allocated to counties and municipalities in which the alcoholic beverage is consumed that gives rise to the tax. One-half of the allocation is distributed to either the county or municipality in which the taxed liquor is consumed, depending on the form of organization of the local public school system. The remaining one-half is allocated to the municipality if collected therein and to the county if collected outside the corporate limits of a municipality. Municipalities received a total allocation of \$12,383,886 and counties received a total of \$6,225,641 in fiscal year 2002 pursuant to this tax.

### **Alcoholic Beverage Tax**

The alcoholic beverage tax was first enacted in 1939. The tax is levied at the rate of \$1.21 on each gallon of wine (other than wine produced in the State) and \$4.40 on each gallon of spirits. Approximately 17.5% of the proceeds of the tax is allocated to counties, based predominantly on county population and in part on area. Counties received a total allocation of \$4,992,156 pursuant to the Alcoholic Beverage Tax in fiscal year 2002.

### **Beer Tax**

The beer tax was first enacted in 1933. The tax is levied at the rate of \$4.29 per thirty-one liquid gallon barrel. Of the proceeds of the tax, 10.05% is allocated equally to counties and 10.05% is allocated based on population to municipalities. In fiscal year 2002, counties received \$2,290,698 and municipalities an equal amount, pursuant to allocations of the Beer Tax.

## **TAX MATTERS**

### **Opinions of Bond Counsel**

In the opinion of Hawkins, Delafield & Wood, Bond Counsel to the Authority, under existing statutes and court decisions, and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2003 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2003 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied upon certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the 2003 Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2003 Bonds from gross income under Section 103 of the Code.

In the opinion of Bond Counsel, under existing laws of the State, the 2003 Bonds and the interest thereon are free from taxation by the State or any local governmental unit or other political corporations or subdivisions thereof, except for inheritance, transfer and estate taxes, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to State law.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2003 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and

assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2003 Bonds, or under state and local tax law.

### **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2003 Bonds in order that interest on the 2003 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of gross proceeds of the 2003 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2003 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2003 Bonds from gross income under Section 103 of the Code.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2003 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2003 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of 2003 Bonds.

Prospective owners of 2003 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and certain foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included gross income for Federal income tax purposes. Interest on the 2003 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

### **Original Issue Discount**

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a 2003 Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means that first price at which a substantial amount of those 2003 Bonds of that maturity was sold (excluding sales to bonds houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of 2003 Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any 2003 Bond having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2003 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods, using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

### **Bond Premium**

In general, if an owner acquires a 2003 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2003 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that 2003 Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period, under the owner's regular method of accounting, against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on sale, exchange, or other disposition of Premium Bonds.

### **Possible Government Action**

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for the tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated by the Internal Revenue Service involving either the 2003 Bonds or other tax-exempted bonds will not have an adverse effect on the tax-exempt status or market price of the 2003 Bonds. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2003 Bonds will not have an adverse effect on the tax-exempt status or market price 2003 Bonds.

### **General**

Owners of 2003 Bonds should consult their own tax advisors in determining the Federal, state, local or any other tax consequences to them of the purchase, ownership and disposition of 2003 Bonds. Bond Counsel will express no opinion regarding Federal, state or local tax consequences arising with respect to the 2003 Bonds, or the ownership or disposition thereof, except as stated above. For the form of proposed opinion of Bond Counsel, see Appendix F.

## **VERIFICATION**

The accuracy of the mathematical computations supporting the adequacy of the maturing principal of and interest on the Government Obligations, together with other moneys, if any, deposited with the Refunding Trustee to pay the redemption price of and interest on the Refunded Bonds as and when due as described herein will be verified by The Arbitrage Group, Inc. as a condition to the delivery of the 2003 Bonds.

## **LITIGATION**

No litigation is pending or, to the knowledge of the Authority, threatened in any court to restrain or enjoin the issuance of delivery of any of the 2003 Bonds or the collection of Revenues pledged to pay the principal of and interest on the 2003 Bonds or in any way contesting or affecting the validity of the 2003 Bonds, the Resolution (including the 2003 Supplemental Resolution) or the power to collect and pledge Revenues to pay the 2003 Bonds, or contesting the power or authority of the Authority to issue the 2003 Bonds or adopt the Resolution (including the 2003 Supplemental Resolution).

## **RATINGS**

Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch Ratings have assigned the 2003 Bonds ratings of A1, AA, and A+, respectively. Such ratings reflect only the respective views of such organizations and are not a recommendation to buy, sell or hold the 2003 Bonds. Explanations of the significance of a rating may be obtained only from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any rating will be maintained for a given period of time or that it will not be revised downward or withdrawn entirely by the respective rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price or marketability of the 2003 Bonds.

## **FINANCIAL ADVISOR**

Public Financial Management, Inc. ("PFM") is employed by the Authority to perform professional services in the capacity of financial advisor. In its role as financial advisor to the Authority, PFM has provided advice on the plan of financing and structure of the 2003 Bonds, reviewed certain legal and disclosure documents, including this Official Statement, for financial matters, and reviewed the pricing of the 2003 Bonds by the Underwriters. PFM has not independently verified the factual information contained in this Official Statement, but relied on the information supplied by the Authority and other sources and the Authority's certification as to the Official Statement.

## **LEGAL OPINIONS**

The validity of the 2003 Bonds will be approved by the legal opinion of Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon by the Attorney General and Reporter of the State of Tennessee, Nashville, Tennessee, as counsel to the Authority, and by Boulton, Cummings, Conners & Berry, PLC, Nashville, Tennessee, as counsel to the Underwriter. The proposed form of such Bond Counsel opinion is set forth in Appendix F.

No representation is made to the holders of the 2003 Bonds that Bond Counsel or the Attorney General and Reporter have verified the accuracy, completeness or fairness of the statements made in this Official Statement, and such counsel assume no responsibility to the holders of the 2003 Bonds except for the matters that will be set forth in their respective opinions.

## **CONTINUING DISCLOSURE**

The Authority has authorized a Continuing Disclosure Undertaking (the "Undertaking") with respect to the 2003 Bonds to assist the successful bidder for the 2003 Bonds in complying with U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"). The Undertaking will be for the benefit of the holders of the 2003 Bonds, and beneficial owners will be third-party beneficiaries thereof. The execution of the Undertaking by the Authority is a condition precedent to the obligation of the successful bidder for the 2003 Bonds to purchase the 2003 Bonds. See Appendix C for a summary of certain provisions of the Undertaking. A copy of the Undertaking may be obtained from the Division of Bond Finance after the delivery of the 2003 Bonds. Contact the Assistant Secretary of the Authority, James K. Polk State Office Building, Suite 1600, Nashville, Tennessee 37243-0273; telephone (615) 401-7872; fax (615) 741-5986; Email "Mary.Margaret.Collier@state.tn.us".

The Authority has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in the Rule.

## **UNDERWRITING**

The Underwriter listed on the cover page of this Official Statement has agreed, subject to certain conditions, to purchase all, but not less than all, of the 2003 Bonds from the Authority at a price of \$8,353,053.55. The Underwriter will be paid a fee in connection with the purchase of the 2003 Bonds in the amount of \$75,000. The Underwriter will be obligated to purchase all of the 2003 Bonds if any are purchased. The initial public offering prices of the 2003 Bonds may be changed from time to time by the Underwriter.

The 2003 Bonds may be offered and sold to certain dealers (including the Underwriter and other dealers depositing 2003 Bonds into investment trusts) at prices lower than such public offering prices.

## **MISCELLANEOUS**

References to and summaries of provisions of the Constitution and laws of the State or of any other documents referred to in this Official Statement, including the Act, Loan Program Agreements, and Resolution, do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof

Any statements in this Official Statement involving matters of estimate or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the 2003 Bonds.

## **TENNESSEE LOCAL DEVELOPMENT AUTHORITY**

**By: /s/ John G. Morgan, Secretary**



## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of the Resolution and does not purport to be complete, and reference is made to the Resolution, copies of which are available from the Authority.

The Resolution authorizes the issuance of Bonds and Notes of the Authority, including the 2003 Bonds, to provide sufficient moneys to carry out the purposes of the State Loan Programs. The 2003 Supplemental Resolution supplements the Resolution and provides for the issuance of the 2003 Bonds.

### Certain Definitions:

The following are definitions in summary form of certain terms contained in the Resolution:

**"Administrative Expenses"** means the cost of the Authority of carrying out and administering its powers, duties and functions in connection with the Loan Program Agreements, Program Loans and Resolution.

**"Bond Year"** means the period commencing March 1 of any calendar year and ending on the last day of February of the immediately succeeding calendar year.

**"Debt Service"** means the total, as of any particular date of computation and for any particular period or year, of the amounts (i) required pursuant to the Resolution to be deposited during such period or year in the Bond Fund to provide for the payment of interest on the Bonds, to provide for the payment at maturity of the Bonds issued in serial form and to provide for the mandatory retirement of any of the Bonds issued in term form; and (ii) required pursuant to the Resolution to be deposited during such period or year in the Bond Fund to provide for the payment of interest on Notes.

**"Department"** means the State Department of Environment and Conservation (the successor to the Department of Public Health) or, if the Department shall be abolished, the board, body, commission or agency succeeding to the principal functions thereof or to which the powers and duties granted or imposed upon the Department shall be given by law.

**"Fiscal Year"** means the fiscal year of the State as established from time to time, which as of the date of effectiveness of the Resolution is the twelve-month period commencing on July 1 of each calendar year and ending on June 30 of the immediately succeeding calendar year.

**"Investment Securities"** means, with respect to any moneys held under the Resolution during any period while such moneys are invested in an investment pool of the State, any investment which at the time is a legal investment under the laws of the State for the public moneys of the State and, to the extent permitted by law, with respect to any moneys held under the Resolution during any period such moneys are not invested in an investment pool of the State, any certificates of deposit of banks located in Tennessee collateralized according to State law as of the effective date of the Resolution; bonds, notes or bills of the United States of America; federal land bank bonds; federal home loan bank notes and bonds; federal national mortgage association notes and debentures; federal intermediate credit bank debentures; banks for cooperative debentures; or any of its other agencies or obligations guaranteed as to principal and interest by the United States of America or any of its agencies; or in such obligations of the United States of America or any of its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself.

**"Loan Program Agreement"** means a contractual arrangement by and between a Local Government Unit, the Department, the State Funding Board with respect to those loan program agreements entered into prior to May 3,

1989, and the Authority pursuant to and in accordance with a State Loan Program providing for a Program Loan to such Local Government Unit for the purpose of such State Loan Program which is funded from the proceeds of Bonds or Notes.

**"Local Government Unit"** means any county, metropolitan government, incorporated town or city, or special district of the State.

**"Outstanding" or "outstanding"** when used with reference to Bonds or Notes means, as of any date, Bonds or Notes theretofore or thereupon issued pursuant to the Resolution, except: (i) any Bonds or Notes canceled by the Authority or a Paying Agent or paid at or prior to such date; (ii) Bonds or Notes in lieu of or in substitution for which other Bonds or Notes shall have been delivered pursuant to the Resolution; and (iii) Bonds or Notes deemed to be no longer outstanding thereunder as provided in the Resolution with respect to "Defeasance".

**"Principal Prepayment"** means any payment or other recovery of principal on a Program Loan which is received in advance of its scheduled due date under a Loan Program Agreement.

**"Program Loan"** means any loan or grant made to a Local Government Unit by the State and which is required to be repaid pursuant to a Loan Program Agreement under a State Loan Program.

**"Reserve Fund Requirement"** means an amount equal to the maximum amount of principal and interest payable in the current or any future Bond Year for all series of Bonds at the time outstanding.

**"Revenues"** means and includes all income, fees, charges, receipts, earnings and other moneys derived by the Authority in connection with the financing of State Loan Programs by the Authority, including without limiting the generality of the foregoing, (i) all payments made by Local Government Units pursuant to Loan Program Agreements with such Local Government Units, other than payments of principal on Program Loans during the time such Program Loans are financed by Notes or the earnings on such payments and other than payments earmarked by the Authority as reimbursements to the Statutory Fund; (ii) the earnings on and the income derived from the investment of the proceeds of Bonds and Notes and from the investment of any other moneys held under the Resolution; and (iii) State Shared Taxes but only at such time as such taxes have been withheld pursuant to law and a Loan Program Agreement and have become the property of the Authority; and (iv) amounts from the Statutory Fund paid to the Authority, for deposit in the Bond Fund, upon request of the Authority.

**"State"** means the State of Tennessee.

**"State Loan Programs"** means the Sewage Treatment Works Program, the Waterworks Construction Program, and the Resource and Energy Recovery Facility Program undertaken pursuant to statute to provide assistance to Local Government Units by making Program Loans to such Local Government Units for the purposes of the aforesaid Programs.

**"State Shared Taxes"** means taxes imposed and collected by the State pursuant to law and appropriated and allocated by law to Local Government Units, whether appropriated and allocated for a particular purpose or for the general use of such Local Government Units, as identified by resolution of the Authority approved by the State Attorney General.

### **Pledge and Assignment Under Resolution**

The Bonds shall be limited special obligations of the Authority payable on a parity as to principal, interest and premium, if any, from and equally and ratably secured by the Revenues, which Revenues are pledged, assigned and charged to such payment in accordance with the provisions of the Resolution. The Notes shall be limited special obligations of the Authority payable as to interest on a parity with the Bonds from and equally and ratably secured as to interest by the Revenues, which Revenues are pledged, assigned and charged to such payment of interest in accordance with the provisions of the Resolution. There are also pledged, assigned and charged as additional security for the payment of the principal of and interest and premium, if any, on Bonds, and to the payment of interest on the Notes, the Authority's rights and interest in and to the Loan Program Agreements and all other moneys held

under the Resolution in accordance with the terms and provisions of the Resolution, provided, however, that no Bondholder or holder of a Note may bring an action to enforce any of the provisions of the Loan Program Agreements against a Local Government Unit except by and through the Trustee or a trustee for holders of Notes pursuant to the Resolution; and further except that such pledge, assignment and charge are subject to the prior claim of the State for reimbursement to the Statutory Fund to the extent reimbursements have not been made from other sources. The principal of and premium, if any, on the Notes shall be payable solely from and secured by the proceeds of renewal Notes and the proceeds of the Bonds in anticipation of which the Notes are issued and all payments of principal on Program Loans during such time such Program Loans are financed by Notes and the earnings on such payments, which proceeds, principal payments and earnings are pledged, assigned and charged to such payment in accordance with the provisions of the Resolution.

The Bonds and the Notes shall not constitute a debt or a pledge of the faith and credit of the State or any Local Government Unit and the holders or owners of the Bonds shall have no right to have taxes levied by the General Assembly of the State or by any Local Government Unit or any other taxing authority within the State for the payment of the principal of, premium, if any, and interest on the Bonds and the Notes, but the Bonds and interest on the Notes shall be payable solely from the Revenues and, in the case of Notes, principal from the proceeds of Bonds in anticipation of which such Notes are issued and renewal Notes, and other moneys pledged to the payment thereof.

### **Conditions for the Issuance of Bonds and Notes**

**Issuance of Bonds other than Refunding Bonds.** Bonds may be issued under the Resolution to provide sufficient moneys to carry out the purposes of State Loan Programs, including the retirement of general obligation bond anticipation notes of the State or notes issued to provide interim financing for State Loan Programs, to provide for the payment of interest on the Bonds for a reasonable time after issuance, to establish reserves to secure the Bonds, and to provide for the payment of costs incident to the issuance of the Bonds, upon compliance with the following conditions:

- (a) The issuance of Bonds shall have been authorized by law and under and pursuant to a Supplemental Resolution;
- (b) The State Treasurer shall certify to the Authority at the time of issuance of a series of Bonds that immediately after the issuance of such series of Bonds there shall be no deficiency in the Bond Reserve Fund;
- (c) The Secretary of the Authority shall certify to the Authority at the time of issuance of a series of Bonds that no Event of Default (as hereinafter described) has occurred and is continuing under the Resolution;
- (d) The Comptroller of the Treasury of the State shall file with the Authority a certificate:
  - (i) setting forth the total amount of Bonds to be issued, stating separately (A) the amount from the proceeds of the proposed Bonds allocable to Program Loans; (B) the estimated amount, if any, required in order to provide for the payment of interest on such Bonds for a stated period after issuance; (C) the estimated amount, if any, required to establish reserves required by the Resolution; and (D) the estimated amount, if any, required to provide for the payment of costs incident to the issuance of such Bonds; and
  - (ii) certifying with respect to Local Government Unit to which a Program Loan is to be made, or refinanced, from the proceeds of such Bonds, that a Loan Program Agreement is in effect, that the certificate of the Comptroller of the Treasury required by the Resolution (described under "Covenants of the Authority" below) to be filed with respect to each such Loan Program Agreement has been filed with the Authority, and that the aggregate of the payments required to be made to the State by all Local Government Units

under all Loan Program Agreements in each Bond Year after the issuance of such series of Bonds will be sufficient, together with other funds available for such purposes, to pay the principal of, and interest and premium, if any, on all Bonds to be outstanding after the issuance of such series of Bonds and to fulfill any and all other obligations of the Authority, including the payment of interest on all outstanding Notes.

**Refunding Bonds.** The Authority by means of a Supplemental Resolution may issue refunding Bonds upon receipt by the Authority of a certificate of the Comptroller of the Treasury to the same effect as set forth in paragraph (d)(ii) under "Issuance of Bonds other than Refunding Bonds" above for either of the following purposes:

- (a) If the Authority shall determine that sufficient Revenues will not be available to pay any Bond on its maturity date or to retire any amount of Bonds issued in the form of term Bonds on the redemption date specified therefor, Bonds may be issued for the purpose of refunding (including by purchase) such Bond or such amount of Bonds, including amounts to pay principal, redemption premium and interest to the date of redemption (or purchase) and the expenses of issuing the refunding Bonds and of effecting such refunding; provided that such refunding Bonds shall not be issued more than two years prior to such maturity or redemption date; or
- (b) To refund (including by purchase) Bonds, including amounts to pay principal, redemption premium and interest to the date of redemption (or purchase) and the expenses of issuing the refunding Bonds and of effecting such refunding; provided that the Debt Service on all Bonds to be outstanding after the issuance of the refunding Bonds shall not be greater in any Bond Year in which Bonds not refunded shall remain outstanding than would have been the Debt Service in such Bond Year were such refunding not to occur.

**Issuance of Notes.** Notes may be issued to provide sufficient moneys to carry out the purposes of State Loan Programs, including the retirement of general obligation bond anticipation notes of the State or other notes issued to provide interim financing for State Loan Programs, to provide for the payment of interest on the Notes for a reasonable time after issuance, and to provide for the payment of costs incident to the issuance of the Notes.

No Note, including all renewals and extensions therefor, shall mature later than eight (8) years from its date or such greater period as may be permitted by law. Notes may be issued upon compliance with the following conditions:

- (a) The issuance of Notes shall have been authorized by law and pursuant to a Supplemental Resolution;
- (b) The Secretary of the Authority shall certify to the Authority at the time of issuance of a series of Notes that there is no default in the payment of the principal of, premium, if any, and interest on, any outstanding Bond or Note; and
- (c) The Comptroller of the Treasury of the State shall file with the Authority a certificate:
  - (i) setting forth the total amount of Notes to be issued, stating separately (A) the amount from the proceeds of the proposed Notes allocable to Program Loans; (B) the estimated amount, if any, required in order to provide for the payment of interest on such Notes for a stated period after issuance; (C) the estimated amount, if any, required to establish reserves required by the Resolution; and (D) the estimated amount, if any, required to provide for the payment of costs incident to the issuance of such Notes; and
  - (ii) certifying with respect to Local Government Units to which Program Loans are to be made, or refinanced, from at least 75% of the proceeds of such Notes available for Program Loans, that Loan Program Agreements are in

effect, that the certificate of the Comptroller of the Treasury required by the Resolution (described under "Covenants of the Authority" below) to be filed with respect to each such Loan Program Agreement has been filed with the Authority, and that the issuance of such Notes will not affect the ability of the Authority to pay the principal of, interest and premium, if any, on any Bonds of the Authority to be outstanding after the issuance of said Notes, and to fulfill any and all other obligations of the Authority, including the payment of interest on all Notes to be outstanding after the issuance of said Notes.

**Subordinate Lien Obligations.** The Authority may issue bonds, notes, certificates of indebtedness or other evidences of indebtedness payable as to principal and interest from the Revenues of the Authority subject and subordinate to the deposits and credits required to be made from the State Loan Programs Fund, to the Interest Account, the Serial Bond Principal Account, the Term Bond Principal Account and the Bond Reserve Fund, and secure such bonds, notes, certificates of indebtedness or other evidences of indebtedness and the payment thereof by a lien and pledge on the Revenues of the Authority junior and inferior to the lien and pledge on the Revenues, the Loan Program Agreements and the proceeds of renewal Notes and Bonds in anticipation of which issued, created by the Resolution for the payment and security of the Bonds and notes.

### **Funds and Accounts; Flow of Funds**

**Proceeds Fund.** The Resolution creates a Proceeds Fund to be held and administered by the Authority. The Proceeds Fund consists of a Bond Proceeds Account and a Note Proceeds Account. Bond or Note proceeds designated for the retirement of Bonds or Notes or bond anticipation notes of the State (unless directly applied) or for the making of Program Loans are deposited into a separate subaccount established for each series of Bonds or Notes in the Bond Proceeds Account or Note Proceeds Account. Moneys credited to the Bond Proceeds Account and the Note Proceeds Account shall be used to make or refinance Program Loans and for no other purpose and until so applied are pledged to the payment of Bonds and Notes, respectively.

In the event the Authority determines that there are moneys in a separate subaccount in the Bond Proceeds Account or Note Proceeds Account in the Proceeds Fund available for the retirement of Bonds or Notes issued to fund a subaccount and a Program Loan may be reduced without penalty to the Bond Fund or detriment to the holders of such Bonds or Notes, the Authority shall transfer, or cause to be transferred, such excess moneys from the respective subaccount to the Bond Fund for application to the retirement of Bonds or Notes, as the case may be, as soon as practicable.

**State Loan Programs Fund.** The Resolution creates the special trust fund of the Authority established by statute and designated the "State Loan Programs Fund", to be held in trust and administered by the Authority.

All Revenues and principal payments on Program Loans during the time such Programs Loans are financed by Notes shall be set aside as collected and, except as is specifically provided otherwise by the Resolution, deposited in the State Loan Programs Fund. The moneys and securities in the State Loan Programs Fund shall be applied by the Authority at the times, in the amounts, and in the order of priority set forth below.

A separate Note Prepayment Account and Bond Prepayment Account shall be established in the State Loan Programs Fund. All Principal Prepayments on Program Loans during such time such Program Loans are financed by Notes shall be deposited in the State Loan Programs Fund for credit to the Note Prepayment Account therein and used to pay principal of Notes on the next practicable principal payment date when Notes become due, and all Principal Prepayments allocable to Bonds received by the Authority under Loan Program Agreements shall be deposited in the State Loan Programs Fund for credit to the Bond Prepayment Account and the special subaccount created therein for the account of the Local Government Unit making such Principal Prepayment. All moneys in such subaccount in the Bond Prepayment Account and the securities in which such moneys may from time to time be invested shall be used in accordance with the amortization schedule provided in the applicable Loan Program Agreement, as if the Program Loan made thereunder had not been prepaid, to pay principal of the series of Bonds the proceeds of which funded the Program Loan then being prepaid, as and when such principal becomes due and payable; and until so used shall be invested in compliance with the Resolution.

The moneys on deposit in the State Loan Programs Fund to the credit of the Bond Prepayment Account and the separate subaccounts therein shall be transferred by the Authority to the Serial Bond Principal Account and the Term Bond Principal Account in the Bond Fund as required in accordance with the applicable Loan Program Agreements and the Resolution.

**Bond Fund.** The Resolution creates a Bond Fund to be held and administered by the Authority. After the application of moneys as provided under "State Loan Programs Fund," the Authority shall withdraw from the State Loan Programs Fund and pay into the Bond Fund the Revenues to the extent necessary to provide for the punctual payment of the principal of and premium, if any, on Bonds and interest on the Bonds and Notes as and when the same become due. The moneys on deposit in the Bond Fund shall be used solely for the payment of principal of and premium, if any, due on Bonds and interest due upon Bonds and Notes.

If on any interest payment date there shall be a deficiency in the Bond Fund, such deficiency shall be reduced: first from moneys or securities on deposit in the General Fund, second from moneys or securities on deposit in the Bond Reserve Fund, and third from moneys and securities on deposit in the Statutory Fund provided that all conditions precedent for withdrawals from such Fund are satisfied.

The Bond Fund consists of an Interest Account, Serial Bond Principal Account and Term Bond Principal Account into which the Authority shall deposit Revenues in the following amounts and at the following times:

- (a) **Interest Account.** With respect to each series of Bonds and each series of Notes issued under the Resolution, commencing with the first business day of the month which follows the month in which such series of Bonds or Notes are delivered and paid for, and continuing in each month thereafter so long as any of the Bonds or Notes of such series are outstanding, the Authority shall credit to the Interest Account an amount such that, if the same amount were so credited to the Interest Account in each succeeding month thereafter prior to the next date upon which an installment of interest falls due on such Bonds or Notes, as the case may be, the aggregate of the amounts on credit to the Interest Account on such next interest payment date will be equal to the installment of interest falling due on all outstanding Bonds and Notes on such interest payment date.

In making the foregoing credits to the Interest Account, consideration shall be given to and allowed for interest, if any, provided from the proceeds of Bonds or Notes in the amounts and at the times provided in the Supplemental Resolution authorizing such Bonds or Notes and accrued interest received upon the sale of a series of Bonds or Notes deposited in the Bond Fund and credited to the Interest Account.

- (b) **Serial Bond Principal Account.** For the purpose of paying the principal of Bonds maturing in the form customarily known as "serially" or having a single maturity without sinking fund installments and with respect to each series of such Bonds, the Supplemental Resolution adopted in accordance with the Resolution shall provide for monthly credits to the Serial Bond Principal Account or any subaccount established by such Supplemental Resolution for such purpose at such time and in such amount so as to provide for the payment of such bonds issued serially in the principal amount and at the time specified in the Supplemental Resolution providing for the issuance thereof.
- (c) **Term Bond Principal Account.** In the event of the issuance of Bonds in the form customarily known as "term bonds", the Supplemental Resolution adopted in accordance with the Resolution shall provide for monthly credits by the Authority to the Term Bond Principal Account or any subaccount established by such Supplemental Resolution for such purpose at such time and in such amounts so as to provide for the retirement of such Bonds issued in the form of term bonds in the principal amounts and at the times specified in the Supplemental Resolution providing for the issuance thereof.

The moneys on deposit in the Bond Fund on credit to the Interest Account, Serial Bond Principal Account and Term Bond Principal Account shall be transferred by the Authority, without further authorization or direction, to the Paying Agents for such Bonds and Notes and the coupons, if any, pertaining thereto, in such amounts and at such times as shall be necessary to pay the principal of and premium, if any, on such Bonds and interest on such Bonds and Notes as the same become due and payable.

**Bond Reserve Fund.** The Resolution creates a Bond Reserve Fund to be held and administered by the Authority. The moneys on deposit in the Bond Reserve Fund shall constitute a reserve for the payment of the principal of and premium, if any, and interest on the Bonds. Subject to the provisions with respect to the deposits to be made in the Bond Reserve Fund upon the issuance of Bonds and the application of excess moneys in the Bond Reserve Fund, (a) the moneys on deposit in the Bond Reserve Fund shall always be maintained at an amount at least equal to the Reserve Fund Requirement; (b) if at any time during a Bond Year the moneys on deposit in the Bond Reserve Fund are less than the Reserve Fund Requirement, the amount of the deficiency (subject to the provisions requiring payments into the Bond Fund) shall be restored from the first available Revenues which shall be withdrawn from the State Loan Programs Fund and deposited in the Bond Reserve Fund; (c) if at the end of any Bond Year, the moneys on deposit in the Bond Reserve Fund are less than the Reserve Fund Requirement, the Authority shall (after making the deposits and credits required with respect to the Bond Fund) deposit an amount in the Bond Reserve Fund from moneys on deposit in the State Loan Programs Fund or the General Fund so that there shall then be on deposit in the Bond Reserve Fund an amount equal to the Reserve Fund Requirement; and (d) if at any time and for so long as the moneys on deposit in the Bond Reserve Fund are at least equal to the Reserve Fund Requirement, no further deposits shall be made to the Bond Reserve Fund. Upon issuance of Bonds under the Resolution, there shall be paid to the Bond Reserve Fund such amount, if any, of the proceeds of the sale of such Bonds as the Authority shall have specified in the Supplemental Resolution providing for the issuance of such Bonds, so that there shall then be on deposit in the Bond Reserve Fund an amount equal to the Reserve Fund Requirement for all series of Bonds to be outstanding upon the issuance of such Bonds (including the Bonds then being issued). The moneys in the Bond Reserve Fund shall be used and applied by the Authority solely for the purpose of paying the principal of and premium, if any, and interest on Bonds when due. The moneys in the Bond Reserve Fund may not be used and applied for the purpose of paying the principal of or premium, if any, or interest on Notes.

If at any time the Authority shall determine that moneys on deposit in the Bond Reserve Fund are in excess of the Reserve Fund Requirement, the amount of such excess may be transferred to the State Loan Programs Fund to be used and applied as are other moneys in said fund.

Whenever the total of the moneys on deposit or investments in the Bond Fund, the Bond Reserve Fund and the General Fund, other than amounts which are required for the payment of principal and premium, if any, and interest which has theretofore become due but is unpaid, and amounts on credit for the payment of Notes, is sufficient to retire at maturity, or to redeem prior to maturity in accordance with their respective terms, all of the Bonds then outstanding, together with interest thereon to their maturity date or the date fixed for the redemption thereof, no further deposits need be made to the Bond Fund or the Bond Reserve Fund except for credits to the Interest Account for the payment of interest on outstanding Notes. In such event, the Authority shall retire at maturity or shall call for redemption all Bonds which may be redeemed by their terms, on the next succeeding redemption date for which the required redemption notice may practicably be given, and shall apply such amount to such retirement or redemption.

**General Fund.** The Resolution creates a General Fund to be held and administered by the Authority.

There are deposited in the General Fund amounts specified by the Supplemental Resolution authorizing Bonds or Notes to provide for the costs of issuance of such Bonds or Notes.

At the end of each Bond Year after making all deposits and credits in the Bond Fund, Bond Reserve Fund and Statutory Fund required by the Resolution, the Authority shall withdraw from the State Loan Programs Fund and deposit in the General Fund all moneys remaining in the State Loan Programs Fund other than moneys on credit to the Bond Prepayment Account or Note Prepayment Account therein. To the extent not required to make up any deficiencies in the Bond Fund, Bond Reserve Fund or Statutory Fund, or to pay costs of issuance of Bonds or Notes, moneys in the General Fund may be applied to any of the following purposes:

- (i) refunding moneys due to Local Government Units where appropriate;
- (ii) transfers to the State Loan Programs Fund;
- (iii) transfers to the Bond Fund to be applied to the purchase or redemption of Bonds or Notes;
- (iv) transfers to the Bond Fund to be applied to the purchase or redemption of indebtedness of the Authority junior and inferior to the Bonds which has been issued for the State Loan Programs;
- (v) payments or credits to Local Government Units of an allocable portion of earnings on investments held under the Resolution attributable to Bonds or Notes issued to provide Program Loans for such Local Government Units;
- (vi) to the extent permitted by law, to the payment of Administrative Expenses as required; and
- (vii) payment to the United States of America pursuant to the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, of any payment required in connection with the investment of proceeds of Bonds and Notes;

provided, however, that moneys on deposit in the General Fund shall not be applied to any of the foregoing purposes if such application would result in the inability of the Authority to pay principal of, or premium, if any, or interest on any of the Bonds or Notes then outstanding as the same become due.

**Statutory Fund.** The moneys and securities on deposit in the Statutory Fund allocable to Loan Program Agreements (a) shall constitute a limited insurance reserve for the payment of the principal of and premium, if any, and interest on the Bonds, and interest on Notes; (b) shall not be subject to any pledge, lien, assignment or charge under the Resolution; and (c) may be withdrawn from the Statutory Fund upon request of the Authority for the purposes of the Bond Fund only if (i) all conditions precedent for such withdrawals required by the Act have been satisfied, (ii) there is a deficiency on an interest payment date in the Bond Fund after transfers from the Bond Reserve Fund and General Fund have been made, and (iii) a Local Government Unit shall have failed to make a payment under a Loan Program Agreement for which an allocation in the Statutory Fund has been made and there are insufficient State-Shared Taxes available for such payment. If there has been a withdrawal from the Statutory Fund in any Bond Year, the Authority (after making the deposits and credits to the Bond Fund and the Bond Reserve Fund) shall deposit in the Statutory Fund an amount equal to the amount of such withdrawal and interest thereon from moneys on deposit in the State Loan Programs Fund or the General Fund. The Authority shall earmark payments under a Loan Program Agreement made by a Local Government Unit in the normal course or pursuant to judicial proceedings for direct reimbursement to the Statutory Fund for withdrawals made therefrom for such Loan Program Agreement and interest on such withdrawals to the extent reimbursements have not been made from the State Loan Programs Fund or General Fund.

At the end of each calendar year the Authority shall certify to the Governor of the State the amount of the deficiency, if any, in the Statutory Fund (valuing investments at face value).

### **Investment of Moneys in Funds**

Moneys in the State Loan Programs Fund, the Bond Fund, the Bond Reserve Fund and the General Fund and the accounts and subaccounts in such funds shall be invested and reinvested by the Authority to the extent reasonable and practicable in Investment Securities maturing in the amounts and at the times as determined by the Authority so that the payments required to be made from such funds, accounts and subaccounts may be made when due. Moneys in the Bond Reserve Fund shall be invested by the Authority in Investment Securities so as to mature



by no later than the final maturity date of all Bonds then outstanding. Moneys in the Proceeds Fund shall be invested and reinvested by the Authority to the extent reasonable and practicable in Investment Securities maturing in such amounts and at such times as is anticipated by the Authority that such moneys will be required to make the Program Loans to be made therefrom. The Authority is authorized to sell any investment when necessary to make the payments to be made from the funds, accounts and subaccounts created by the Resolution. All earnings on and income derived from investments of moneys in the funds, accounts and subaccounts (other than earnings on and income derived from investments of moneys in the Note Prepayment Account in the State Loan Programs Fund which shall be retained in such account for use and application as are other moneys in such account) shall be deposited in the State Loan Programs Fund, for use and application as are Revenues deposited in that fund.

The Treasurer of the State, on behalf of the Authority, holds the funds created under the Resolution. Moneys held under the Resolution may be invested as part of any pool of investments maintained and managed by the State; provided that the Authority shall maintain proper books and records adequately identifying the balance on deposit in each fund and on credit to each account or subaccount held by it; and provided, further, that the moneys invested therein for a particular fund or account or subaccount shall be available as required for the purposes of such fund or account or subaccount as specified above.

Neither the Treasurer of the State, the Authority nor the Trustee shall be liable for any depreciation in the value of the Investment Securities acquired under the Resolution.

For the purposes of making any calculations or computations at any time and from time to time of the amounts in any such fund, account or subaccount, including the Bond Reserve Fund, which may be required for the purposes of the Resolution, all investments shall be valued at par or, if purchased at less than par, at their cost, without accrued interest.

### **Covenants of the Authority**

The Authority covenants and agrees with the Bondholders as follows:

1. **Condition Precedent to entering into Loan Program Agreements.** The Authority shall not enter into a Loan Program Agreement to be financed from the proceeds of Bonds or Notes unless and until: (a) there shall be filed with the Authority a certificate of the Comptroller of the Treasury of the State (i) setting forth, with respect to the Local Government Unit which will receive a Program Loan: the name of such Local Government Unit; the amount of such Program Loan; the total, at the time of approval of the Program Loan, of all Program Loans under the State Loan Programs made to the Local Government Unit (whether financed from the proceeds of Bonds or Notes or from the proceeds of general obligation bond anticipation notes of the State); the total amount, at the time of approval of the Program Loan, of payments required to be made in each Fiscal Year under Loan Program Agreements, excluding payments which will be required on account of the Program Loan with respect to which such certificate relates and under contracts (other than Loan Program Agreements) providing for loans or grants under a State Loan Program from the proceeds of general obligation bonds and bond anticipation notes; the amount of State Shared Taxes received in the prior Fiscal Year as shown by the latest completed audit for the State's Fiscal Year preceding the time of approval of such Program Loan; the amount of indebtedness (other than under Loan Program Agreements) having a prior lien on State Shared Taxes as certified by the Local Government Unit receiving the Program Loan; and the total amount, at the time of approval of the Program Loan, of payments required to be made in each Fiscal Year under Loan Program Agreements, including payments which will be required on account of the Program Loan with respect to which such certificate relates and under contracts (other than Loan Program Agreements) providing for loans or grants under a State Loan Program from the proceeds of general obligation bonds and bond anticipation notes; and (ii) evidencing that the total amount of payments by such Local Government Unit required to be made in each Fiscal Year under Loan Program Agreements, including payments which will be required

on account of the Program Loan with respect to which such certificate relates and under contracts (other than Loan Program Agreements) providing for loans or grants under a State Loan Program from the proceeds of general obligation bonds or bond anticipation notes (the "Total Annual Program Payments"), will not exceed two hundred percent (200%) or such lower percent as prescribed by the Authority of the amount of State Shared Taxes shown in the certificate which such Local Government Unit received in the preceding Fiscal Year as shown by the latest completed audit for the State's Fiscal Year after deducting the amount of such State Shared Taxes applied to the other indebtedness of such Local Government Unit in such Fiscal Year (the "Unobligated State Shared Taxes"); (b) there shall be on deposit in the Statutory Fund for the specific class of State Loan Programs (Sewage Treatment Works Program, Waterworks Construction Program or Resource and Energy Recovery Facility Program) an amount not less than the amount by which Total Annual Program Payments exceed one hundred percent (100%) of Unobligated State Shared Taxes (the "Available Draw Amount") as shown in said certificate of the Comptroller of the Treasury of the State and is otherwise available for allocation by the Authority to such Loan Program Agreement; and (c) the Authority shall have allocated to such Loan Program Agreement an available amount on deposit in the Statutory Fund equal to the Available Draw Amount.

In preparing the certificate described above the Comptroller of the Treasury shall, in determining the amount of payments required to be made in each Fiscal Year under Loan Program Agreements, including the Loan Program Agreement with respect to which such certificate relates, and under contracts providing for Program Loans from the proceeds of general obligation bonds or bond anticipation notes, (i) with respect to Program Loans which have been funded from the proceeds of Bonds of the Authority or the proceeds of general obligation bonds of the State, utilize the actual debt service requirements under such Loan Program Agreements or contracts; and (ii) with respect to Program Loans for which no funding has yet been provided or for which interim financing from the proceeds of notes or from other available moneys is being provided, utilize the debt service requirements under such Loan Program Agreements determined by the Authority at the time of approval of such Loan Program Agreements as if the Bonds to be issued to fund such Program Loans will bear interest at such rate per annum and mature in such manner as the Authority shall establish at the time of such approval.

2. **Enforcement of Loan Program Agreements; Withholding of State Shared Taxes.** The Authority shall diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Loan Program Agreements. The Authority shall not release the obligations of any Local Government Unit under any Loan Program Agreement so long as any obligations are outstanding under the Loan Program Agreement and shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Authority and of the Bondholders under or with respect to each Loan Program Agreement; provided that the Authority shall have the power and authority to settle a default on any Loan Program Agreement on such terms as the Authority shall determine to be in the best interests of the Authority and the Bondholders and to forbear from taking action with respect to enforcement of a Loan Program Agreement if it determines such forbearance to be in the best interest of the Authority and the Bondholders.

Notwithstanding any other provision of the Resolution, no Bondholder or holder of a Note shall have the right to bring an action to enforce any of the provisions of the Loan Program Agreements against a Local Government Unit except through the Trustee or a trustee for holders of Notes or a receiver pursuant to the Resolution.

The Authority shall diligently enforce, and take all reasonable steps, actions and proceedings necessary to cause State Shared Taxes to be withheld and paid over to the

Authority at such times and to the extent permitted by law and the terms of the Loan Program Agreements.

A Local Government Unit or a trustee appointed pursuant to law with respect to any of the assets of the Local Government Unit shall have no interest in State Shared Taxes allocated to such Local Government Unit and shall not be entitled to receipt thereof after such State Shared Taxes have been withheld and allocated to or paid over to the Authority.

3. **Assignment or Disposition of Loan Program Agreements.** The Authority shall not sell, assign, transfer or otherwise dispose of any of its rights or interests in any Loan Program Agreement unless the Authority determines that such action is in the best interests of the Authority and the Bondholders and will not adversely affect the ability of the Authority to pay when due the principal of and premium, if any, and interest on the Bonds, in which case such Loan Program Agreements may be so disposed of by the Authority.
4. **Amendment of Loan Program Agreements.** The Authority shall not consent to, or agree to permit, any amendment or modification of any Loan Program Agreement which in any manner will materially impair or materially adversely affect the rights or security of the Authority under the Resolution in such Loan Program Agreement except for amendments and modifications made in connection with settling any default on any Loan Program Agreements which settlement the Authority determines to be in the best interests of the Authority and the Bondholders and except for an amendment or modification made with the consent of the holders of not less than sixty-six and two-thirds percent (66 2/3%) of the principal amount of the Bonds then outstanding.
5. **Accounts and Reports.** The Authority shall keep proper books of record and account in which complete and correct entries shall be made of its transactions in accordance with generally accepted accounting principles. The funds and accounts established by the Resolution, such books, and all other books and papers of the Authority, to the extent permitted by law, at all reasonable times shall be subject to the inspection of the holders of the Bonds then outstanding or their representatives duly authorized in writing. The Authority will permit such Bondholders, and their agents, auditors, attorneys and counsel, at all reasonable times, to make copies and extracts from the books of record and account.

The Authority shall file annually, within one hundred fifty (150) days after the close of each Fiscal Year, with the Trustee, and otherwise as provided by law, a copy of an annual report for such year, accompanied by a certificate of an independent accountant conducting the annual audit, such audit to be performed in accordance with State laws pertaining to audits of agencies of the State of Tennessee, such certificate to state, in addition to matters customarily covered thereby, (1) that such audit has been conducted in accordance with the laws of the State of Tennessee pertaining to audits of agencies of the State of Tennessee and (2) whether during the course of such audit the occurrence of any Event of Default or an event which with notice and lapse of time would constitute an Event of Default under the Resolution came to the attention of such accountant and specifying the nature of any such Event of Default or event which with notice and lapse of time would constitute an Event of Default, and stating, as of the close of such Fiscal Year, whether any such Event of Default or other such event is continuing. If such report is not filed with the Trustee on or before the due date therefor, the Trustee shall immediately give notice to the Authority of the failure to file such report and that it intends to assume the rights and responsibilities granted to the Trustee under the Resolution if at the expiration of 60 days from such notice, such report has not been filed and, consequently, an Event of Default shall have occurred.

6. **Program Loan Covenants.** The Authority shall not enter into any Loan Program Agreement for the purpose of making any Program Loan unless the Authority complies in all respects with the Act and the following conditions:

- (i) The Program Loan shall have been made to a Local Government Unit pursuant to and in accordance with a State Loan Program under the Act.
- (ii) The Loan Agreement shall contain security provisions as are required pursuant to the Act and the Program Loan shall be secured by the pledge and assignment to the Authority of (a) revenues, income and receipts from fees, rates or charges imposed by the Local Government Unit for the facilities financed in connection with the Loan Program Agreement and services provided therefrom, and receipts from ad valorem taxes, if any, levied by the Local Government Unit as will be sufficient to pay the cost of facilities financed in connection with the Loan Program Agreement and (b) the State Shared Taxes allocated to the Local Government Unit, not otherwise pledged, up to the maximum annual debt service requirements under the Loan Program Agreement.
- (iii) The Program Loan shall bear interest (a) during such time as the Program Loan is funded through notes issued for such purposes, at a rate at least equal to the interest rate borne by such notes and (b) from and after the time the Program Loan has been funded by Bonds, at a rate or rates at least equal to the interest rate borne by such Bonds in each Bond Year.
- (iv) The Authority shall have received the certificate of the Comptroller of the Treasury described in paragraph numbered "1" above.
- (v) From and after the delivery of the first series of Bonds the Authority shall not disburse moneys under a Loan Program Agreement if the Authority has determined that the Local Government Unit to receive moneys under a Loan Program Agreement will be unable to repay the Program Loan in a timely fashion and unless it shall have received documentation for each such Program Loan as required by the Resolution.

#### **Events of Default; Remedies upon Occurrence Thereof**

**Events of Default.** Each of the following is defined as an "Event of Default" under the Resolution:

- (a) If payment of the principal of and premium, if any (or the redemption price) on any Bond whether at maturity or by proceedings for redemption, shall not be made when the same shall become due and payable; or
- (b) If payment of any installment of interest on any Bond shall not be made on the date the same shall become due and payable; or
- (c) If the Authority shall fail in the due and punctual performance of any of the covenants, conditions, agreements, provisions or obligations contained in the Bonds or in the Resolution relating to Bonds or in any Supplemental Resolution, other than a Supplemental Resolution relating to Notes, on the part of the Authority to be performed, and such failure shall continue for sixty (60) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Authority by the holders of not less than twenty percent (20%) in principal amount of the Bonds then

outstanding or any committee therefor or the Trustee; provided that if any such failure shall be such that it cannot be cured or corrected within such sixty (60) day period, it shall not constitute an Event of Default if curative or corrective action is instituted within such period and diligently pursued until the failure of performance is cured or corrected; or

- (d) If the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Resolution.

Upon the occurrence of an Event of Default or of an event which after notice and lapse of time would constitute an Event of Default, the Authority shall immediately notify the Trustee of such occurrence and of the corrective or curative action, if any, the Authority intends to take.

**Trustee.** SunTrust Bank, Nashville, N.A., Nashville, Tennessee, has been appointed Trustee under the Resolution. Prior to the occurrence of an Event of Default under the Resolution, the Trustee has no duties as a trustee under the Resolution and the Authority will hold all funds established by the Resolution as provided therein for the benefit of the holders of the Bonds.

**Trustee to Assume Trust Powers Upon the Occurrence of an Event of Default.** Upon the occurrence of an Event of Default of which the Trustee has actual knowledge and at all times thereafter while such default shall continue, the Trustee shall become vested with all the estate, properties, rights, trusts, duties and obligations of the trustee under the Resolution as provided in Article VI of the Resolution and shall enter into and take possession of, or supervision over, the funds and accounts continued or created under the Resolution and collect and receive and apply all Revenues and other moneys held under the Resolution in the same manner as the Authority itself might do, and shall act for and on behalf of the Authority in the exercise of all rights and duties of the Authority thereunder.

**Declaration of Principal and Interest as Due.** Upon the happening and continuance of any Event of Default specified above, then the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding shall, declare the principal of all the Bonds then outstanding to be due and payable immediately. If, however, at any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action of proceeding instituted on account of such Event of Default, or before the completion of the enforcement of any other remedy under the Resolution, moneys shall have accumulated in the Bond Fund sufficient to pay the principal of and any premium (or redemption price) on all matured Bonds and all Bonds (or portions of the principal amount thereof) then or theretofore required to be redeemed pursuant to any provisions of the Resolution (excluding principal not then due except by reason of the aforesaid declaration) and all arrears of interest then due, if any, upon all Bonds and Notes then outstanding and if all other amounts then payable by the Authority shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee, and every other Event of Default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Resolution (other than a default in the payment of the principal of such Bonds then due only because of a declaration as described in this paragraph) shall have been remedied or, in the case of any Event of Default other than the nonpayment of an amount due and owing or any of the Events of Default set forth in clauses (a), (b) or (c) above, the Authority shall be taking, or shall be causing to be taken, appropriate action in good faith to effect its cure, then and in every such case the Trustee, with the written consent of the holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding, shall rescind and annul such declaration and its consequences. (Notwithstanding any such declaration that principal of the Bonds be due and payable, the obligations of the Local Government Units under the Loan Program Agreements are not subject to acceleration thereunder.)

**Disposition of Moneys in Event of Insufficiencies in Funds and Accounts.** If at any time the moneys in the Bond Fund, the General Fund and the Bond Reserve Fund, shall not be sufficient to pay the interest on Bonds and Notes or principal or premium, if any (or the redemption price) of the Bonds as the same become due and payable (whether at maturity or upon proceedings for the redemption thereof or by declaration or otherwise), the moneys in such funds, together with any other moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Resolution or otherwise, shall be applied in the manner and as provided in the Resolution.

**Suits or Actions by Bondholders; Any Bondholder May Enforce Overdue Payment of His Bond or Interest Thereon.** No holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or for any other remedy thereunder unless such holder previously shall have given to the Authority and the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the holders of not less than a majority in principal amount of the Bonds then outstanding shall have made written request of any Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its or their name, and such Trustee shall have refused or neglected to comply with such request within a reasonable time. No holder of the Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution, or to enforce any right under the Resolution except in the manner provided in the Resolution. All proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Resolution and for the benefit of all holders of such outstanding Bonds and coupons; and that any individual rights of action or other right given to one or more of such holders by law are restricted by the Resolution to the rights and remedies provided in the Resolution.

Notwithstanding any other provision of the Resolution, the right of any holder of a Bond to receive payment of the principal of and interest on such Bond, on or after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder, except that no holder of any such Bond shall have the right to institute any such suit, if and to the extent that the institution or prosecution thereof or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver, or loss of the lien of the Resolution.

**Remedies Not Exclusive.** No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the holders of the Bonds is intended to be exclusive of any other remedy so conferred or reserved or to be exclusive of other remedies now or hereafter existing at law or in equity or by statute.

### **Amending and Supplementing of the Resolution**

**Amending and Supplementing of the Resolution Without Consent of Bondholders.** The Authority with the consent of the Trustee unless otherwise indicated, from time to time and at any time and without the consent or concurrence of any holder of any Bond, may adopt Supplemental Resolutions amendatory of or supplemental to the Resolution, (i) for the purpose of providing for the issuance of Bonds or Notes which may be adopted without the consent of the Trustee, provided a copy of such Supplemental Resolution is delivered to the Trustee as soon as practicable after adoption, (ii) to permit the Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America, and (iii) if the provisions of such Supplemental Resolution shall not adversely affect the rights of the holders of the Bonds then outstanding, for any one or more of the following purposes:

1. To make any changes or corrections in the Resolution which are technical wording corrections or for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error, or to insert provisions clarifying matters or questions arising under the Resolution as are necessary or desirable; or
2. To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds; or
3. To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution; or
4. To confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Resolution; or

5. To grant to or confer upon the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; or
6. To prescribe further limitations and restrictions upon the issuance of Bonds (other than Bonds in anticipation of which Notes have been issued and are then outstanding) or Notes and the incurring of indebtedness by the Authority payable from the Revenues; or
7. To modify in any other respect any of the provisions of the Resolution, provided that such modifications shall have no effect as to any Bond or Bonds or Note or Notes which are then outstanding.

**Amendment of the Resolution With Consent of Bondholders.** With the consent of the holders of not less than sixty-six and two-thirds percent (66 2/3%) of principal amount of the Bonds then outstanding the Authority, from time to time and at any time, may adopt Supplemental Resolutions for the purpose of adding any provision to, or changing in any manner or eliminating any of the provisions of, the Resolution, or modifying or amending the rights and obligations of the Authority and the Trustee thereunder, or modifying in any manner the rights of the holders of the Bonds and coupons then outstanding; provided, however, that, without the specific consent of the holder of each such Bond which would be affected thereby, no such Supplemental Resolution shall: (1) change the fixed maturity date for the payment of the principal of any Bonds or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the redemption price (or the redemption premium) payable upon the redemption or prepayment thereof; or (2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any such Supplemental Resolution; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds; or (4) authorize the creation of any pledge of the moneys and other assets of the Authority or any lien or charge thereon prior, superior or equal to the pledge of and lien and charge thereon for the payment of the Bonds; or (5) deprive any holder of the Bonds of the security afforded by the Resolution. Further, without the specific consent of the Trustee, no such Supplemental Resolution shall affect the rights, duties and liabilities of the Trustee.

### **Defeasance**

The obligations of the Authority under the Resolution shall be fully discharged and satisfied as to any Bond or Note and such Bond or Note shall no longer be deemed to be outstanding and shall be deemed to have been paid:

- (i) when such Bond or Note shall have been canceled, or shall have been surrendered for cancellation and is subject to cancellation, or shall have been purchased by the Authority from moneys in the Bond Fund held by it under the Resolution; or
- (ii) as to any Bond or Note not canceled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal of and the applicable redemption premium, if any (or the applicable redemption price) on such Bond or Note, plus interest on such principal to the due date thereof, either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with the Paying Agents for such Bond or Note, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Governmental Obligations (as defined hereinafter) maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, or (3) a combination of both such moneys and such Governmental Obligations, whichever the Authority deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Trustee and the Paying Agents pertaining to the Bond or Note with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee and such Paying Agents.

At such time as a Bond or Note shall be deemed to be no longer outstanding under the Resolution, such Bond or Note shall cease to accrue interest from the due date thereof (whether such due date be by reason of maturity, or

upon redemption or prepayment or by declaration as aforesaid, or otherwise) or the earlier date of which it is canceled or surrendered for cancellation and, except for the purpose of any such payment from such moneys or Governmental Obligations, shall no longer be secured by or entitled to the benefits of this Resolution.

Notwithstanding the foregoing, in the case of Bonds or Notes which by their terms may be redeemed or otherwise prepaid prior to their stated maturities and which the Authority shall elect to so redeem or prepay, no deposit under clause (b) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid, until such Bonds or Notes shall have been irrevocably called or designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been previously published or provision satisfactory to the Paying Agents shall have been irrevocably made for the giving of such notice; provided that nothing herein shall require or be deemed to require the Authority to elect to redeem or prepay such Bonds or Notes, or, in the event the Authority shall elect to redeem or prepay such Bonds or Notes, shall require or be deemed to require the redemption or prepayment as of any particular date or dates.

For the purposes hereof, the term "Governmental Obligations" shall mean direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America, which are non-callable at the option of issuer.

### **Resolution Constitutes a Contract**

In consideration of the acceptance of the Bonds and coupons pertaining thereto by those who shall hold the same from time to time, each of the obligations, duties, limitations and restraints imposed upon the Authority by the Resolution shall be deemed to be a covenant between the Authority, the Trustee and every holder of the Bonds and coupons, and the Resolution and every provision and covenant thereof shall be deemed to be and shall constitute a contract between the Authority and the holders from time to time of the Bonds and interest coupons appertaining thereto.



## APPENDIX B

### THE DEPOSITORY TRUST COMPANY

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2003 Bonds. The 2003 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the 2003 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2003 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2003 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2003 Bonds, except in the event that use of the book-entry system for the 2003 Bonds is discontinued.

To facilitate subsequent transfers, all 2003 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. **Beneficial Owners of the 2003 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2003 Bonds, such as redemptions, defaults, and**

**proposed amendments to the 2003 Bond documents.** For example, Beneficial Owners of the 2003 Bonds may wish to ascertain that the nominee holding the 2003 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2003 Bonds of a maturity within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of such series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2003 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, the 2003 Bond certificates are required to be prepared and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2003 Bond certificates will be prepared and delivered.

THE FOREGOING INFORMATION CONCERNING DTC AND DTC's BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM DTC, A SOURCE THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

NEITHER THE AUTHORITY, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT CAN MAKE ANY ASSURANCE THAT DTC OR THE DTC PARTICIPANTS WILL ACT IN A MANNER DESCRIBED HEREIN, NOR WILL THEY HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DIRECT DTC PARTICIPANT, OR BY ANY DIRECT DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM IF ANY, OR INTEREST ON THE 2003 BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC OR ANY DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATIONS TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE 2003 BOND DOCUMENTS TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2003 BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE 2003 BONDS.

So long as Cede & Co. is the registered owner of the 2003 Bonds, as nominee for DTC, references in the Official Statement to the Bondholders or registered owners of the 2003 Bonds (other than under the caption "Tax Matters" in the Official Statement) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2003 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. WHEN NOTICES ARE GIVEN, THEY SHALL BE SENT BY THE AUTHORITY OR THE TRUSTEE TO DTC ONLY.

Beneficial Owners may be charged by DTC Participants a sum sufficient to cover any tax, fee or other charge that may be imposed in relation to transfers and exchanges of beneficial ownership interests in the 2003 Bonds.

**SUMMARY OF CERTAIN PROVISIONS OF THE  
CONTINUING DISCLOSURE UNDERTAKING**

The following is a summary of certain provisions of the Continuing Disclosure Undertaking (the "Undertaking") to be executed and delivered by the Authority in connection with the issuance of the 2003 Bonds to assist the successful bidder for the 2003 Bonds in complying with the U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"). This summary is not a full statement of the provisions of the Undertaking and, accordingly, is qualified by reference thereto and is subject to the full text thereof.

In the Undertaking, the Authority will agree to provide the Annual Financial Information described below with respect to each fiscal year of the Authority, commencing with the fiscal year ending June 30, 2003, by no later than 7 months after the end of the respective fiscal year, to (i) each nationally recognized municipal securities information repository ("NRMSIR") and (ii) the state information depository, if any, operated by or on behalf of the State of Tennessee (the "State") for purposes of the Rule ("SID"; as of the date hereof, there is no SID).

"Annual Financial Information" includes updated versions of the following financial information and operating data contained in this Official Statement with respect to the Authority and the State, for each fiscal year of the Authority.

- State Shared Taxes--Disbursements to Local Government Units
- Funds Available to Meet Debt Service (State Shared Taxes) and Estimated Debt Service (Authority Loan Program Agreements and Other Contracts) by Borrower (Appendix E, Schedule 2)
- State Shared Taxes by Borrower (Appendix E, Schedule 3)

As used above, "Borrower" refers to the Local Government Units for which information is shown in Appendix E to the Official Statement. The descriptions contained above are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it relates have been materially changed or discontinued, a statement to that effect will be provided in lieu of such information.

Annual Financial Information also includes the annual financial statements of the Authority, audited by such auditors (which may include the State's Division of State Audit) as shall then be required or permitted by State law ("Audited Financial Statements"), if available, or unaudited financial statements. Audited Financial Statements of the Authority may include supplemental information if and to the extent determined by the auditor. If not provided as part of Annual Financial Information by the date referred to above, because not available, the Authority will provide audited Financial Statements, when and if available, to each NRMSIR and the SID. Audited Financial Statements will be prepared in accordance with generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them ("GAAP"). Audited Financial Statements including any supplemental information for each of the last three fiscal years have been filed with each NRMSIR.

In the Undertaking, the Authority also agrees to provide, in a timely manner, notice of each of the following events with respect to the 2003 Bonds, if material, to (i) either the Municipal Securities Rulemaking Board ("MSRB") or each NRMSIR and (ii) to the SID: principal and interest payment delinquencies; non-payment related defaults; unscheduled draws on debt service reserves reflecting financial difficulties; unscheduled draws on credit enhancements reflecting financial difficulties; substitution of credit or liquidity providers, or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the security; modifications to the rights of security holders; bond calls; defeasances; release, substitution, or sale of property securing repayment of the securities; and rating changes. The Authority will also provide, in a timely manner, notice of any failure of the Authority to provide the Annual Financial Information by the date specified above to (i) either the MSRB or each NRMSIR and (ii) the SID.

The Undertaking will be effective upon the issuance of the 2003 Bonds and will terminate upon the legal defeasance, prior redemption or payment in full of all of the 2003 Bonds. The Undertaking, or any provision thereof, shall be null and void in the event that the Authority (i) receives an opinion of counsel to the effect that those portions of the Rule which require the Undertaking, or such provision, as the case may be, do not or no longer apply to the 2003 Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (ii) delivers copies of such opinion to each NRMSIR and the SID. The Undertaking also may be amended without the consent of the holders of the 2003 Bonds in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status on the Authority or the State or type of business conducted thereby, or if an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, which is applicable to the Undertaking, all as described in the Undertaking. Copies of any such amendment are required to be delivered to each NRMSIR and the SID.

The provisions of the Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the 2003 Bonds, except that beneficial owners of 2003 Bonds shall be third-party beneficiaries of the Undertaking and shall be deemed to be holders of 2003 Bonds for purposes of the next sentence. The obligations of the Authority to comply with the provisions of the Undertaking are enforceable by any holder of outstanding 2003 Bonds; the holder's rights to enforce the provisions of the Undertaking are limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Undertaking. Any failure by the Authority to perform in accordance with the Undertaking will not constitute a default or an event of default under the resolution authorizing the 2003 Bonds or State law and shall not result in any acceleration of payment of the 2003 Bonds, and the rights and remedies provided by such resolution and applicable State law upon the occurrence of such a default or an event of default shall not apply to any such failure.

The Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of the Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent the Undertaking addresses matters of federal securities laws, including the Rule, the Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

**FINANCIAL STATEMENTS OF THE AUTHORITY**



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897 FAX (615) 532-2765

**Independent Auditor's Report**

December 20, 2002

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee Local Development Authority ("the Authority"), a component unit of the State of Tennessee, as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2002, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Authority implemented Government Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying financial information on pages D-17 through D-19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts (including bond resolutions). That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA,  
Director

AAH/dlj

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Tennessee Local Development Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2002.

### **Program Activity Highlights**

The Authority's purpose is to provide loans to Local Government Units under the State Loan Program, and to qualified borrowers under the Community Provider Loan program. The table below summarizes this business activity.

	<b><u>State Loan Program</u></b>		<b><u>Community Providers</u></b>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Number of borrowers with outstanding loans	60	60	18	19
Total number of outstanding loans	114	115	24	26
Total amount of outstanding loans	\$82,685,464	\$83,118,012	\$12,360,192	\$13,236,064
Number of loans approved in fiscal year	2	0	0	0
Amount of loans funded in fiscal year	\$11,810,000	0	0	0

The financial statements and the analysis provided in the remainder of this report reflect the financial results of this activity. For more specific financial information on long-term debt activity, see Note 5, Notes and Bonds Payable, in the Notes to the Financial Statements.

### **Debt Administration**

Pursuant to Title 4, Chapter 31, *Tennessee Code Annotated*, the General Assembly of the state created the Tennessee Local Development Authority to issue bonds and notes to fund capital projects for a variety of purposes. Currently, the active programs of the Authority include

- 1) the State Loan Program, which provides assistance to Local Government Units in the construction of waterworks, sewage treatment, and energy and/or solid waste recovery facilities; and
- 2) the Community Provider Program, which provides facility construction assistance to licensed, nonprofit, 501(c)(3) corporations under grant contracts with the state to deliver mental health, mental retardation, or alcohol and drug services.

A financial analysis of each loan in the State Loan Program is undertaken before it is approved by the Authority. Each Local Government Unit must demonstrate rates and fees sufficient to repay the debt, including operations, maintenance, and depreciation. The Authority is authorized



to intercept the local community's state-shared taxes, should the government unit fail to repay timely its loan. Similarly, Community Providers must also charge fees sufficient to repay the debt, including operations, maintenance, and depreciation. The Authority is also authorized by statute to intercept the state appropriation to the Community Provider if the borrower fails to make timely debt service payments to the Authority.

Under the financing program for the State Loan Program, during the construction phase of a project, the project generally is funded through the issuance of Bond Anticipation Notes. When sufficient projects are completed to assure an economy of scale, the Authority fixes the interest rate for the term of the project by issuing long-term debt. Interest rates on the State Loan Program facilities long-term fixed-rate loans range from a low of 2.5% to a high of 7.25%. By pooling the financing of their capital needs, management believes that economic efficiencies of a single large borrowing administered by one agency were achieved. The creditworthiness of both large and small Local Government Units is homogenized into one credit resulting in a lower cost of borrowing.

The Authority's State Loan Program is rated A+, A1, and AA by Fitch, Moody's Investors Service, and Standard & Poor's Rating Group, respectively. Fitch comments that the rating reflects the debt security provisions and the quality administration of the program. Standard & Poor's cites the financial strength of the local governments receiving loans. Moody's commented that the responsibility of the localities to repay loans, the high credit quality of the loan recipients, and the long-term trend of sound portfolio performance were factors in the rating process.

The Community Provider program was originally authorized in 1990 by the legislature to provide construction financing for eligible borrowers at interest rates lower than would otherwise be obtainable from private industry. The program was initially funded through the issuance of the 1992 and the 1994 Community Provider bonds. In 1999, the state issued general obligation, taxable commercial paper to defease the 1992 and 1994 bonds. The commercial paper interest rates to the Community Provider Program have ranged from 1.83% to 3.76% during fiscal year 2002.

### **Overview of the Financial Statements**

The Authority is a discretely presented component unit of the State of Tennessee and uses enterprise fund accounting. The financial statements are prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Under the economic resources measurement focus, a reader is presented information that allows him to determine the transactions and events that have increased or decreased the total economic resources for the period.

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) the basic financial statements and 2) notes to the financial statements. The basic financial statements are comprised of three separate and distinct statements. The Statement of Net Assets depicts the Authority's financial position at June 30, 2002. The Statement of Revenues, Expenses, and Changes in Net Assets reports the results of inflows and outflows and the change in net assets for the year. The Statement of Cash Flows summarizes the sources and uses of cash throughout the fiscal year. These statements are accompanied by notes to the financial statements that provide information that is essential to the reader's understanding of the financial statements. This report also contains supplementary information containing financial statement information at the program level in addition to the basic financial statements and notes.

### **Financial Analysis of the Authority**

Standard indicators of financial success are not applicable to the Authority. The financial goal of the Authority is to provide timely access to the capital markets at the lowest possible cost. The Authority successfully achieved this goal. There were no incidents requiring the Authority to draw from the debt service reserve fund or refuse a loan from an applicant due to the inability to obtain capital funding.

<b>Statements of Net Assets Summary (in thousands)</b>			
	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Current assets	\$ 33,040	\$ 29,807	10.8%
Noncurrent assets	<u>96,947</u>	<u>98,750</u>	(1.8%)
Total assets	<u>129,987</u>	<u>128,557</u>	1.1%
Current liabilities	57,397	51,205	12.1%
Noncurrent liabilities	<u>58,739</u>	<u>64,334</u>	(8.7%)
Total liabilities	<u>116,136</u>	<u>115,539</u>	.5%
Net assets:			
Restricted net assets	351	661	(46.9%)
Unrestricted net assets	<u>13,500</u>	<u>12,357</u>	9.2%
Total net assets	\$ <u>13,851</u>	\$ <u>13,018</u>	6.4%
<i>Note: The Authority owns no capital assets.</i>			

Current assets include cash of \$11,138,544 representing unexpended note proceeds available to fund loans to State Loan Program eligible borrowers. The Authority issued \$51,000,000 in State Loan Program Bond Anticipation Notes during the fiscal year. It also redeemed \$44,500,000 of prior Bond Anticipation Notes. Debt matured and was repaid in the amount of \$6,958,000. The Community Provider program redeemed commercial paper in the amount of \$1,500,000 with payments made by borrowers. The unrestricted net assets are available to fund operations and other expenses necessary to meet the goals of the Authority.

<b>Statements of Revenues, Expenses, and Changes in Net Assets Summary</b> <b>(in thousands)</b>			
	<u>2002</u>	<u>2001</u>	<u>% Change</u>
<b>Operating Revenues</b>			
Revenue from loans	\$ 5,321	\$ 5,948	(10.5%)
Investment earnings	<u>870</u>	<u>1,735</u>	(49.9%)
Total operating revenue	<u>6,191</u>	<u>7,683</u>	(19.4%)
<b>Operating Expenses</b>			
Interest expense	4,563	5,755	(20.7%)
Subsidy to borrowers	655	856	(23.5%)
Other expenses	<u>165</u>	<u>208</u>	(20.7%)
Total expenses	<u>5,383</u>	<u>6,819</u>	(21.1%)
Operating Income	<u>808</u>	<u>864</u>	(6.5%)
<b>Nonoperating Revenue</b>	<u>25</u>	<u>25</u>	0.0%
Increase in Net Assets	\$ <u>833</u>	\$ <u>889</u>	(6.3%)

The Authority's operating expenses are supported by revenue received from the borrowers as a one-time 2% cost of issuance fee at the time of permanent financing, interest on loans, and income on investments. Operating expenses include interest expense on outstanding debt, administrative expenses, and the amortization of bond costs of issuance. Interest expense decreased because the interest rates on the Bond Anticipation Notes and the loan from the state of Tennessee decreased. In addition, the interest expense also decreased as the balance of debt payable decreased. The Authority returns a portion of the investment earnings as a subsidy to its borrowers in the State Loan Program.

The decrease in the operating income was most affected by a decrease in investment earnings. The investment earnings are a function of prevailing market interest rates and the daily invested balance. During the year ended June 30, 2002, the capital markets were affected by a declining economy and the economic effect of the terrorist actions. As a result, the average interest rate on investments was significantly lower in fiscal year 2002 than in fiscal year 2001.

### **Contacting the Authority's Financial Management Team**

This discussion and analysis is designed to provide our citizens, Local Government Units, Community Providers, investors, and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Director of Bond Finance, State of Tennessee, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273 or visit our website at [www.comptroller.state.tn.us/cpdivbf.htm](http://www.comptroller.state.tn.us/cpdivbf.htm).

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2002

(Expressed in Thousands)

**ASSETS**

## Current assets:

Cash (Note 2)	\$ 27,483
Receivables:	
Loans receivable	5,056
Interest receivable on loans	20
Investments (Note 2)	299
Interest receivable on investments	182

Total current assets	<u>33,040</u>
----------------------	---------------

## Noncurrent assets:

Restricted assets (Notes 2 and 3)	
Investments	6,634
Loans receivable	89,989
Deferred charges	324

Total noncurrent assets	<u>96,947</u>
-------------------------	---------------

Total assets	<u>129,987</u>
--------------	----------------

**LIABILITIES**

## Current liabilities:

Accrued interest payable	1,040
Payable to borrowers (Note 4)	619
Notes payable (Note 5)	51,513
Revenue bonds payable (Note 5)	4,225

Total current liabilities	<u>57,397</u>
---------------------------	---------------

## Noncurrent liabilities:

Loan from the State of Tennessee (Note 5)	12,300
Revenue bonds payable, net (Note 5)	46,439

Total noncurrent liabilities	<u>58,739</u>
------------------------------	---------------

Total liabilities	<u>116,136</u>
-------------------	----------------

**NET ASSETS**

Restricted	351
Unrestricted	13,500

Total net assets	<u>\$ 13,851</u>
------------------	------------------

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

**OPERATING REVENUES**

Revenue from loans	\$ 5,321
Interest income	985
Net (decrease) in fair value of investments	<u>(115)</u>
Total operating revenues	<u>6,191</u>

**OPERATING EXPENSES**

Interest expense	4,563
Subsidy to borrowers	655
Bond issuance cost	25
Administrative expense	<u>140</u>
Total operating expenses	<u>5,383</u>
Operating income	<u>808</u>

**NONOPERATING REVENUE**

Payment from the State of Tennessee	<u>25</u>
Total nonoperating revenue	<u>25</u>
Change in net assets	<u>833</u>
Net assets, July 1	<u>13,018</u>
Net assets, June 30	\$ <u><u>13,851</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Payments to service providers	\$ (140)
Net cash used by operating activities	<u>(140)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Proceeds from the sale of notes	51,541
Principal payments	(50,025)
Interest paid	(5,209)
Subsidy to borrowers	(891)
Payment from the State of Tennessee	<u>25</u>
Net cash used by noncapital financing activities	<u>(4,559)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Loans issued	(8,976)
Collections of loan principal	10,251
Interest received on loans	5,311
Interest received on investments	<u>985</u>
Net cash provided by investing activities	<u>7,571</u>
Net increase in cash	2,872
Cash, July 1	<u>24,611</u>
Cash, June 30	\$ <u><u>27,483</u></u>

**Reconciliation of operating income to net cash  
used by operating activities:**

Operating income	\$ <u>808</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Amortization	25
Revenue from loans	(5,321)
Investment income	(870)
Interest expense	4,563
Subsidy to borrowers	<u>655</u>
Total adjustments	<u>(948)</u>
Net cash used by operating activities	\$ <u><u>(140)</u></u>

**Noncash investing activities:**

(Decrease) in fair value of investments	\$ (115)
---	----------

The Notes to the Financial Statements are an integral part of this statement.

**Tennessee Local Development Authority**  
**Notes to the Financial Statements**  
**June 30, 2002**

---

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Tennessee Local Development Authority was created to provide financial assistance to local governments through the issuance of revenue bonds or notes. The authority has also issued bonds to assist nonprofit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In accordance with the Governmental Accounting Standards Board's Statement No. 14, *The Reporting Entity*, the authority is reported as a discretely presented component unit in the *Tennessee Comprehensive Annual Financial Report*. Although the authority is a separate legal entity, its board consists primarily of state officials, and therefore, the state has the ability to affect the day-to-day operations of the authority.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee Local Development Authority follows all applicable GASB pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989.

**Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

The Tennessee Local Development Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The authority's principal operation is to provide loans to local governments through the issuance of revenue bonds or notes. Therefore, the principal operating revenues of the authority are from interest on loans made to borrowers. The authority also recognizes income on investments as operating revenue. The authority's operating expenses include interest paid on borrowings, subsidies to borrowers, bond issuance costs, arbitrage, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

---

**Investments**

Investments are stated at fair value.

**Bond Discounts and Issuance Costs**

Bond discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable unamortized bond discount. Unamortized issuance costs are reported as deferred charges.

**New Accounting Pronouncement**

Effective July 1, 2001, the authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. To conform to the requirements of GASB 34, the following changes have been made to the authority’s financial statements:

- A. Retained Earnings have been reclassified into the following categories of Net Assets: invested in capital assets, net of related debt; restricted; and unrestricted. (The Authority has no net assets invested in capital assets.)
- B. The statement of financial position is now presented in a statement of net assets format rather than a balance sheet format.
- C. Management’s Discussion and Analysis has been added as required supplementary information.

**NOTE 2. DEPOSITS AND INVESTMENTS**

**Deposits.** Under the general bond resolution of the Tennessee Local Development Authority, the funds of the authority are to be deposited with the State Treasurer and can be invested in any security deemed acceptable to Treasury standards.

The fund had \$27,482,621 in the State Treasurer’s pooled investment fund at June 30, 2002.

The pooled investment fund administered by the State Treasurer is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime

**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

---

commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and agency obligations, and in obligations of the State of Tennessee pursuant to Section 9-4-602(b), *Tennessee Code Annotated*. The pooled investment fund is also authorized to enter into securities lending agreements in which U.S. government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Treasurer's pooled investment fund's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report*.

**Investments.** Investments are required to be categorized to indicate the level of custodial risk assumed by the authority. All of the authority's investments are category 1, which consists of investments that are insured or registered or for which the securities are held by the authority or its agent in the authority's name.

Authority investments at June 30, 2002, are categorized below (expressed in thousands):

	<u>Category 1</u>
	<u>Fair Value</u>
U.S. Treasury Notes	\$5,734
U.S. Treasury Securities-State and Local Government Series	<u>1,199</u>
Total investments	<u>\$6,933</u>

**NOTE 3. RESTRICTED ASSETS**

The general bond resolution of the authority requires that the principal of each bond issue include an amount equal to one year's debt service requirement and that such amount be placed in special trust accounts with the trustee. The required debt service reserve is \$6,634,355 at June 30, 2002.

**NOTE 4. PAYABLE TO BORROWERS**

This account represents interest earnings on restricted assets and loan principal overpayments that will be refunded to borrowers.

**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

---

**NOTE 5. NOTES AND BONDS PAYABLE**

**Notes.** Revenue bond anticipation notes in the amount of \$51,000,000 were issued in June 2002 to retire at maturity the \$44,500,000 notes issued in 2001 and provide additional loan funds to local government units for water and sewer construction projects.

Notes payable at June 30, 2002, are as follows (expressed in thousands):

	<u>June 30, 2002</u>
Revenue bond anticipation notes, 1.66%, issued June 12, 2002, maturing June 11, 2003 (includes unamortized premium of \$513)	<u>\$ 51,513</u>
Total notes payable	<u>\$ 51,513</u>

Short-term debt activity for the year net of unamortized premium (expressed in thousands):

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$45,025	\$51,513	\$45,025	\$51,513

**Revenue bonds.** Bonds payable at June 30, 2002, are as follows (expressed in thousands):

	<u>June 30, 2002</u>
Refunding revenue bonds, 4.0% to 7.25%, issued January 14, 1987, due in various amounts of principal and interest from \$.2 million in 2003 to \$.9 million in 2015 (net of unamortized discount of \$608 at June 30, 2002)	\$ 3,713
Refunding revenue bonds, 2.5% to 5.75%, issued July 7, 1993, due in various amounts of principal and interest from \$3.5 million in 2003 to \$2.1 million in 2011	17,805
Refunding revenue bonds, 4.75% to 5.125%, issued November 1, 1997, due in various amounts of principal and interest from \$3.3 million in 2003 to \$.015 million in 2022 (net of unamortized discount of \$61 and deferred amount on	

**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

---

refunding of \$1,473 at June 30, 2002)	<u>29,146</u>
--	---------------

Net bonds payable	<u>\$ 50,664</u>
-------------------	------------------

Debt service requirements to maturity of the revenue bonds payable at June 30, 2002, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 4,225	\$ 2,732	\$ 6,957
2004	4,115	2,519	6,634
2005	4,255	2,307	6,562
2006	3,545	2,087	5,632
2007	3,265	1,905	5,170
2008-2012	18,273	6,755	25,028
2013-2017	13,418	2,402	15,820
2018-2022	<u>1,710</u>	<u>189</u>	<u>1,899</u>
 Total	 <u>\$ 52,806</u>	 <u>\$ 20,896</u>	 <u>\$ 73,702</u>

**Loan from the State of Tennessee.** On June 2, 1999, the State Funding Board loaned \$16,000,000 to the authority for the Community Provider program. The loan is to be repaid from amounts received from the borrowers. Interest is accrued at a variable rate. The authority has repaid \$3,700,000 as of June 30, 2002.

Long-term debt activity for the year net of unamortized discounts and deferred amount on refunding (expressed in thousands):

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
Bonds	\$54,559	-	\$3,895	\$50,664
Loan	\$13,800	-	\$1,500	\$12,300

**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

---

**NOTE 6. PRIOR YEAR DEFEASANCE OF DEBT**

Prior to fiscal year 2001, the authority defeased certain revenue bonds of the Community Provider Program by placing the proceeds of general obligation notes in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements of the authority. On June 30, 2002, \$19,190,000 of bonds outstanding were considered defeased.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
SUPPLEMENTARY STATEMENT OF NET ASSETS - PROGRAM LEVEL  
JUNE 30, 2002

(Expressed in Thousands)			
	State Loan Program	Community Providers	Total
<b>ASSETS</b>			
Current assets:			
Cash	\$ 26,942	\$ 541	\$ 27,483
Receivables:			
Loans receivable	4,225	831	5,056
Interest receivable on loans	4	16	20
Investments	299	-	299
Interest receivable on investments	182	-	182
Total current assets	<u>31,652</u>	<u>1,388</u>	<u>33,040</u>
Noncurrent assets:			
Restricted assets			
Investments	6,634	-	6,634
Loans receivable	78,460	11,529	89,989
Deferred charges	324	-	324
Total noncurrent assets	<u>85,418</u>	<u>11,529</u>	<u>96,947</u>
Total assets	<u>117,070</u>	<u>12,917</u>	<u>129,987</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accrued interest payable	981	59	1,040
Payable to borrowers	601	18	619
Notes payable	51,513	-	51,513
Revenue bonds payable	4,225	-	4,225
Total current liabilities	<u>57,320</u>	<u>77</u>	<u>57,397</u>
Noncurrent liabilities:			
Loan from the State of Tennessee	-	12,300	12,300
Revenue bonds payable, net	46,439	-	46,439
Total noncurrent liabilities	<u>46,439</u>	<u>12,300</u>	<u>58,739</u>
Total liabilities	<u>103,759</u>	<u>12,377</u>	<u>116,136</u>
<b>NET ASSETS</b>			
Restricted	351	-	351
Unrestricted	12,960	540	13,500
Total net assets	<u>\$ 13,311</u>	<u>\$ 540</u>	<u>\$ 13,851</u>

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS - PROGRAM LEVEL  
FOR THE YEAR ENDED JUNE 30, 2002

---

	(Expressed in Thousands)		
	<u>State Loan Program</u>	<u>Community Providers</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Revenue from loans	\$ 4,349	\$ 972	\$ 5,321
Interest income	966	19	985
Net (decrease) in fair value of investments	<u>(115)</u>	<u>-</u>	<u>(115)</u>
Total operating revenues	<u>5,200</u>	<u>991</u>	<u>6,191</u>
<b>OPERATING EXPENSES</b>			
Interest expense	4,240	323	4,563
Subsidy to borrowers	639	16	655
Bond issuance cost	25	-	25
Administrative expense	<u>139</u>	<u>1</u>	<u>140</u>
Total operating expenses	<u>5,043</u>	<u>340</u>	<u>5,383</u>
Operating income	<u>157</u>	<u>651</u>	<u>808</u>
<b>NONOPERATING REVENUE</b>			
Payment from the State of Tennessee	<u>25</u>	<u>-</u>	<u>25</u>
Total nonoperating revenue	<u>25</u>	<u>-</u>	<u>25</u>
Change in net assets	<u>182</u>	<u>651</u>	<u>833</u>
Net assets, July 1	<u>13,129</u>	<u>(111)</u>	<u>13,018</u>
Net assets, June 30	\$ <u><u>13,311</u></u>	\$ <u><u>540</u></u>	\$ <u><u>13,851</u></u>

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
SUPPLEMENTARY STATEMENT OF CASH FLOWS - PROGRAM LEVEL  
FOR THE YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	<u>State Loan Program</u>	<u>Community Providers</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to service providers	\$ (139)	\$ (1)	\$ (140)
Net cash used by operating activities	<u>(139)</u>	<u>(1)</u>	<u>(140)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Proceeds from the sale of notes	51,541	-	51,541
Principal payments	(48,525)	(1,500)	(50,025)
Interest paid	(4,807)	(402)	(5,209)
Subsidy to borrowers	(781)	(110)	(891)
Payment from the State of Tennessee	<u>25</u>	<u>-</u>	<u>25</u>
Net cash used by noncapital financing activities	<u>(2,547)</u>	<u>(2,012)</u>	<u>(4,559)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Loans issued	(8,976)	-	(8,976)
Collections of loan principal	9,373	878	10,251
Interest received on loans	4,345	966	5,311
Interest received on investments	<u>966</u>	<u>19</u>	<u>985</u>
Net cash provided by investing activities	<u>5,708</u>	<u>1,863</u>	<u>7,571</u>
Net increase (decrease) in cash	3,022	(150)	2,872
Cash, July 1	<u>23,920</u>	<u>691</u>	<u>24,611</u>
Cash, June 30	\$ <u><u>26,942</u></u>	\$ <u><u>541</u></u>	\$ <u><u>27,483</u></u>
<b>Reconciliation of operating income to net cash used by operating activities:</b>			
Operating income	\$ <u>157</u>	\$ <u>651</u>	\$ <u>808</u>
Adjustments to reconcile operating income to net cash used by operating activities:			
Amortization	25	-	25
Revenue from loans	(4,349)	(972)	(5,321)
Investment income	(851)	(19)	(870)
Interest expense	4,240	323	4,563
Subsidy to borrowers	<u>639</u>	<u>16</u>	<u>655</u>
Total adjustments	<u>(296)</u>	<u>(652)</u>	<u>(948)</u>
Net cash used by operating activities	\$ <u><u>(139)</u></u>	\$ <u><u>(1)</u></u>	\$ <u><u>(140)</u></u>
<b>Noncash investing activities:</b>			
(Decrease) in fair value of investments	\$ (115)	\$ -	\$ (115)



**APPENDIX E**  
SCHEDULE 1

SCHEDULE OF ALLOCABLE AMOUNT OF BONDS AND ANNUAL DEBT SERVICE (1)

<u>LOCAL GOVERNMENT UNIT</u>	<u>ALLOCABLE AMOUNT OF BONDS (2)</u>		<u>ANNUAL DEBT SERVICE (3)</u>	<u>MATURITY (4) (MARCH 1)</u>
	<u>SEWER</u>	<u>WATER</u>		
BRENTWOOD		\$1,721,848	\$278,435	2010
CARTHAGE	\$13,280		6,958	2005
COLLEGE DALE	323,718		33,953	2015
COVINGTON	68,831		7,219	2015
CROSSVILLE	1,550,541		173,849	2014
HARRIMAN	58,467		30,632	2005
LAFAYETTE	266,023	255,853	54,737	2015
LEWISBURG	369,199	51,416	56,807	2012
LOUDON	765,120		100,496	2012
MANCHESTER	33,914		4,096	2013
MCMINNVILLE		334,432	175,216	2005
MOUNT PLEASANT	456,901		60,012	2012
NEW JOHNSONVILLE		263,107	34,558	2012
SAVANNAH	390,148		40,871	2015
SPRINGFIELD	123,379		31,117	2015
TULLAHOMA	488,502	515,762	128,518	2014
WAVERLY	<u>244,559</u>		35,334	2011
	\$5,152,582	\$3,142,418		

- (1) SCHEDULES 1, 2 AND 3 IN APPENDIX E PROVIDE INFORMATION ABOUT LOCAL GOVERNMENT UNITS WHOSE PROGRAM LOANS ARE BEING REFINANCED BY THE 2003 BONDS. IN ADDITION TO THESE LOCAL GOVERNMENT UNITS, 41 OTHER LOCAL GOVERNMENT UNITS HAVE PROGRAM LOANS FINANCED BY THE ISSUANCE OF BONDS AND/OR NOTES.
- (2) THE ALLOCABLE AMOUNT OF BONDS LISTED ABOVE FOR EACH LOCAL GOVERNMENT UNIT REPRESENTS THE AMOUNT OF BONDS FOR WHICH THE DEBT SERVICE IS EQUAL TO THE LOCAL GOVERNMENT UNIT'S ANTICIPATED REPAYMENT OBLIGATIONS ON THE PROGRAM LOANS TO BE REFINANCED BY THE ISSUANCE OF THE 2003 BONDS. SUCH ALLOCATION MAY DIFFER FROM THE OUTSTANDING PRINCIPAL AMOUNT OF THE LOCAL GOVERNMENT UNIT'S PROGRAM LOAN.
- (3) DEBT SERVICE REPRESENTS REPAYMENTS FOR THE YEAR BEGINNING MARCH 1, 2003 OF THE LOCAL GOVERNMENT UNIT ON ALL PROGRAM LOANS TO BE REFINANCED BY THE 2003 BONDS. (SOME OF THE LOCAL GOVERNMENT UNITS LISTED ABOVE HAVE ADDITIONAL PROGRAM LOANS WHICH ARE REFLECTED IN THE DEBT SERVICE AMOUNTS LISTED ON SCHEDULE 2.)
- (4) REPRESENTS THE FINAL MATURITY OF ALL PROGRAM LOANS WHICH ARE BEING REFINANCED BY THE 2003 BONDS FOR EACH LOCAL GOVERNMENT UNIT.

## SCHEDULE OF UNOBLIGATED STATE SHARED TAXES AND DEBT SERVICE FOR CURRENT PROJECTS

		DEBT SERVICE				
LOCAL GOVERNMENT UNIT	FUNDS AVAILABLE TO MEET DEBT SERVICE*		AUTHORITY LOAN PROGRAM AGREEMENTS		OTHER CONTRACTS (STATE BONDS, SRF)	TOTAL
	FY 2002 STATE	STATUTORY	2003	PREVIOUSLY		
	SHARED TAXES	RESERVE FUND	BOND FUNDED	BOND FUNDED		
BRENTWOOD	\$4,615,696		\$278,435		\$265,466	\$543,901
CARTHAGE	271,408		6,958			6,958
COLLEGEDALE	752,194		33,953		87,090	121,043
COVINGTON	931,042		7,219	\$3,900	4,385	15,504
CROSSVILLE	1,208,522		173,849		616,245	790,094
HARRIMAN	774,360		30,632			30,632
LAFAYETTE	435,333	\$73,272	54,737	91,656		146,393
LEWISBURG	1,247,680		56,807			56,807
LOUDON	659,595		100,496		1,357,761	1,458,257
MANCHESTER	956,354		4,096			4,096
MCMINNVILLE	1,491,676		175,216		398,695	573,911
MOUNT PLEASANT	490,346		60,012		4,555	64,567
NEW JOHNSONVILLE	203,780		34,558		31,500	66,058
SAVANNAH	822,851		40,871			40,871
SPRINGFIELD	1,630,623		31,117		69,283	100,400
TULLAHOMA	2,207,815		128,518		900,764	1,029,282
WAVERLY	476,882		35,334		4,263	39,597

\* STATE SHARED TAXES SHOWN FOR EACH MUNICIPALITY LISTED ARE NOT SUBJECT TO ANY OUTSTANDING PRIOR PLEDGES, BUT MAY BE SUBJECT TO SUBORDINATE PLEDGES AS DESCRIBED IN "THE LOAN PROGRAM AGREEMENTS-WITHHELD STATE SHARED TAXES". IN ADDITION, A PORTION OF THE STATUTORY RESERVE FUND IS AVAILABLE TO PAY DEBT SERVICE FOR THE LOAN FOR WHICH SUCH PORTION OF THE STATUTORY RESERVE FUND HAS BEEN ALLOCATED AS SHOWN ABOVE. SEE "SECURITY FOR THE 2003 BONDS - LIMITED PAYMENTS FROM STATUTORY FUND".

THIS SCHEDULE ONLY LISTS THE LOCAL GOVERNMENT UNITS RECEIVING PROGRAM LOANS FOR 2003 BOND-FUNDED PROJECTS. IN ADDITION TO THESE LOCAL GOVERNMENT UNITS, 41 OTHER LOCAL GOVERNMENT UNITS HAVE PROGRAM LOANS FINANCED BY THE ISSUANCE OF BONDS AND/OR NOTES.

## SCHEDULE 3

## SCHEDULE OF STATE SHARED TAXES

FOR THE FISCAL YEARS ENDING JUNE 30, 1998, 1999, 2000, 2001 AND 2002\*

<u>LOCAL GOVERNMENT UNIT</u>	<u>FISCAL YEARS ENDING JUNE 30,</u>				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
BRENTWOOD	\$3,205,878	\$3,700,472	\$3,740,743	\$4,135,952	\$4,615,696
CARTHAGE	255,578	265,557	280,040	272,664	271,408
COLLEGEDALE	535,096	582,784	587,590	634,620	752,194
COVINGTON	711,365	756,815	780,819	804,837	931,042
CROSSVILLE	878,837	989,311	1,040,531	1,055,841	1,208,522
HARRIMAN	780,814	738,937	747,311	784,160	774,360
LAFAYETTE	361,057	380,068	390,836	398,887	435,333
LEWISBURG	1,011,786	1,085,421	1,100,542	1,132,093	1,247,680
LOUDON	474,400	520,002	560,063	578,734	659,595
MANCHESTER	781,200	818,635	901,899	912,776	956,354
MCMINNVILLE	1,213,544	1,244,059	1,292,143	1,308,429	1,491,676
MOUNT PLEASANT	400,879	419,276	437,527	439,616	490,346
NEW JOHNSONVILLE	180,057	187,782	193,032	193,153	203,780
SAVANNAH	632,104	698,632	719,991	736,510	822,851
SPRINGFIELD	1,132,594	1,332,407	1,373,690	1,394,334	1,630,623
TULLAHOMA	1,744,674	1,933,747	1,992,953	1,994,973	2,207,815
WAVERLY	404,976	427,452	445,115	446,840	476,882

\* THIS SCHEDULE ONLY LISTS THE LOCAL GOVERNMENT UNITS THAT HAVE RECEIVED PROGRAM LOANS FOR 2003 BOND-FUNDED PROJECTS. IN ADDITION TO THESE LOCAL GOVERNMENT UNITS, 41 OTHER LOCAL GOVERNMENT UNITS HAVE PROGRAM LOANS FINANCED BY THE ISSUANCE OF BONDS AND/OR NOTES.

FORM OF PROPOSED OPINION OF BOND COUNSEL

[Closing Date]

Tennessee Local Development  
Authority  
Nashville, Tennessee

Dear Sirs:

TENNESSEE LOCAL DEVELOPMENT AUTHORITY,  
STATE LOAN PROGRAMS REVENUE BONDS,  
2003 REFUNDING SERIES A, \$8,295,000

At your request we have examined into the validity of \$8,295,000 principal amount of State Loan Programs Revenue Bonds, 2003 Refunding Series A (the "Bonds"), of the Tennessee Local Development Authority (the "Authority"), a duly created and validly existing body politic and corporate and public agency and instrumentality of the State of Tennessee (the "State").

The Bonds are issued pursuant to the laws of the State, including particularly Title 4, Chapter 31, Tennessee Code Annotated, as amended, and the State Loan Programs General Bond Resolution adopted by the Authority on August 3, 1982, as amended and supplemented and restated and readopted on March 14, 1985, as amended on May 17, 1989, and a supplemental resolution adopted by the Authority on December 19, 2003 (collectively, the "Resolution") to provide moneys to refund bonds of the Authority the proceeds of which were used to carry out the purposes of certain programs of the State of Tennessee (the "State Loan Programs") which provide assistance to certain counties, metropolitan governments, incorporated towns or cities, or special districts of said State (herein and in the Resolution defined as "Local Government Units") by making repayable grants or loans thereto (herein and in the Resolution defined as "Program Loans") pursuant to agreements by and between the Local Government Units, the Authority, the State Funding Board (with respect to agreements entered into prior to May 3, 1989) and the State Department of Environment and Conservation or its predecessors (herein and in the Resolution defined as "Loan Program Agreements"), or to refund bonds theretofore issued for such purposes.

We have examined the Constitution and laws of the State; certified copies of proceedings of the Authority authorizing the issuance of the Bonds, including the adoption of the Resolution; and such certificates, records and other documents, and have made such other examination of law and fact, as we have considered necessary or appropriate for purposes of this letter.

We are of the opinion that:

1. The Resolution has been duly adopted by the Authority and the provisions thereof are valid and binding upon the Authority and are enforceable in accordance with their terms.

2. The Bonds have been authorized and issued in accordance with the Constitution and laws of the State of Tennessee and constitute valid limited special obligations of the Authority payable on a parity with bonds, and interest on notes, of the Authority heretofore and hereafter issued under the Resolution, solely from and equally and ratably secured by the revenues and other moneys of the Authority pledged to the payment thereof by the Resolution, which revenues and other moneys so pledged consist of the moneys derived by the Authority from or in connection with the financing of the Program Loans of the Authority, including amounts derived pursuant to the Loan Program Agreements funded and refunded under

the Resolution but excluding certain payments of principal on Program Loans made under Loan Program Agreements. The Bonds do not constitute a debt or a pledge of the faith and credit of the State, or of any Local Government Unit, and the holders of the Bonds shall have no right to have any taxes levied by the General Assembly of the State or any Local Government Unit or any other taxing authority of the State for payment of the principal of and interest on the Bonds.

3. Under existing statutes and court decisions, and assuming compliance with the tax covenants referred to below, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 3, we have relied upon representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Bonds, and we have assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income for Federal income tax purposes under Section 103 of the Code. Noncompliance with such procedures may cause the interest on the Bonds to become included in gross income for Federal income tax purposes, retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is ascertained.

4. The original issue discount on the Bonds, if any, that has accrued and is properly allocable to any owner thereof is excluded from gross income for Federal income tax purposes to the same extent as interest on the Bonds.

5. Under the existing laws of the State, the Bonds and the interest thereon are free from taxation by the State or any local governmental unit or other political corporations or subdivisions thereof, except for inheritance, transfer and estate taxes, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to State law.

The opinions expressed in paragraphs 1 and 2 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium, and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs 3, 4 and 5 above, (ii) Federal tax matters to the extent affected by any action taken or not taken in reliance upon an opinion of counsel other than ourselves, or (iii) the accuracy, adequacy, sufficiency or completeness of the Official Statement of the Authority dated January 22, 2003 (or any update or amendment thereof or supplement thereto) relating to the Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or facts or circumstances, or changes in law or in interpretations thereof, that may hereafter occur, or for any other reason.

Very truly yours,